

[work in progress; please do not quote]

**External Finance and Evidence of Structural Changes for
the 18 Sub-Saharan African Post-MDRI Countries**

Table of Contents

I. Introduction.....	4
II. Data Sources	5
A. Existing Databases	5
B. Construction of a New Database	10
III. Overall Trends in External Financing	11
IV. Changing Pattern of External Financing.....	15
A. Increasing share of private-sector flows.....	15
B. Increasing share of net long-term capital in total public-sector flows	17
C. Indications of private source debt in public-sector flows.....	18
V. Determinants	20
A. Private Sector-Long-Term Capital Flows	20
Cross-country Comparison.....	20
Regression results.....	21
B. Public-Sector Long-term Capital Flows	22
Cross group comparison.....	22
Regression results.....	23
VI. Conclusions.....	26
Appendix 1	27
Appendix 2	29
References	43

Abstract

Using a homogenous subset of 18 post-MDRI SSA countries, the paper highlights different estimates of external financing with the existing databases. Against this background, we construct a new database that shows that net external resources to post-MDRI SSA countries have substantially increased before the financial crisis. Indeed, total aggregated net inflows financing both the public and private sectors increased by 11.4 percentage points of 2007 GDP, to reach 17½ percent of the GDP in 2007.

While the increase was broad-based, the private sector was the largest beneficiary. A surge of foreign direct investment (FDI) and higher current private transfers drove the spectacular rise in private-sector financing. The increase in public-sector external financing reflected both the provision of grants and higher net transfers.

Cross-country analysis shows that inflows to the private sector are higher for countries that had (i) a relative higher level of income; (ii) stronger quality of institutions and policies; and (iii) higher quality of social and physical infrastructure. The quality of institutions appears to be a determinant of long-term capital flows to the public sector. The analysis of the heterogeneity in aid allocation through quantile regression shows that donors were more selective when allocating aid to countries with a better quality of institutions.

Executive Summary

Net external resources to post-MDRI Sub-Saharan African (SSA) countries have substantially increased during the last few years. Total aggregated net inflows financing both the public and private sectors have almost tripled from \$7.8 billion in 2001 to \$22.2 billion in 2007 in real terms. Relative to the countries' economy size, external financing increased by 11.4 percentage points of 2007 GDP, to reach 17½ percent of the GDP in 2007.

While the increase was broad-based, the private sector was the largest beneficiary. External financing to the private sector expanded by \$7.7 billion, while financing to the public sector grew by a little more than \$6.7 billion over the same period. The increases for private and public sectors amounted, respectively, to 6.1 percent and 5.3 percent of 2007 GDP. As private sector inflows grew faster, they exceeded public-sector inflows in 2007, and accounted for a larger share of total external finance in 2007 (51 percent).

A surge of foreign direct investment (FDI) and greater current private transfers drove the spectacular rise in private-sector financing. Estimate show that FDI has contributed to an overall rise in external financing by 3.1 percentage points of 2007 GDP. FDI itself rose by 2.7 percentage point of GDP, and other long-term flows—mostly being private liabilities associated with FDI—have increased by 0.4 percentage point of GDP. Current private transfers—the main component being remittances—steadily grew by 2.9 percentage points. FDI and private transfers shared almost the same weight in 2007.

The increase in public-sector external financing reflected both the provision of grants higher net transfers. Grants doubled during the period and reached \$6.9 billion in 2007, representing an increase of \$3.6 billion (2.9 percentage points of 2007 GDP). In parallel, net transfers on debt rose from \$0.5 billion to \$3.4 billion (equivalent to an increase of 2.3 percentage points of 2007 GDP). These positive transfers are both the result of a reduction in debt service payments (+1.4 percentage points of GDP) following the implementation of debt relief initiatives and higher gross lending (+0.9 percentage points of 2007 GDP).

Cross-country analysis shows that a number of characteristics dominate the behavior of external financing:

- Inflows to the *private sector* are greater for countries that had (i) a relative higher level of income; (ii) stronger quality of institutions and policies; (iii) higher quality of social and physical infrastructure; and (iv) mineral exports.
- Inflows to the *public sector* are greater for countries that had (i) lower income levels; (ii) no mineral and hydrocarbon exports; (iii) lower quality of human and physical infrastructure; (iv) been landlocked; (v) better quality of institutions and policies; and (vi) a moderate debt distress ratings.

I. INTRODUCTION

1. **Most of the low-income countries (LICs) rely on external resources to finance their development agenda.** The major challenge facing these economies is to accelerate and sustain economic growth. However, as the base for domestic resource mobilization is weak and the saving-investment gap is large, they have to rely on external resources for their economic development. Those external resources can play a positive role by providing the necessary foreign exchange to boost economic activity.

2. **The mobilization of external resources in a sustainable manner requires accompanying policies and reforms.** Reliance on external resources, volatility in public-sector flows, and changes in the market sentiment can reinforce the vulnerability of LICs and undermine their economic prospects. Thus, policies and reforms geared at maximizing the availability of external resources, while lessening the vulnerabilities must be designed.

3. **With a view to fulfilling this objective, it appears critical to know the sources, the forms, and the determinants of external financing.** Using a homogenous subset of 18 LICs—all of them located in Sub-Saharan Africa and having benefited from debt relief under the Multilateral Debt Relief Initiative—existing databases on external financing were compared. All of them, in particular for external financing directed to the public sector, pointed to different trends and estimates. Against this background, a new database was constructed with the help of the African Department at the International Monetary Fund (IMF) using data presented in the balance of payments files. Each type of external financing may have different macroeconomic implications. But the purpose of this paper is not to address this, but rather to set a stage to derive adequate policy advice.

4. **The outline of this paper is as follows.** Section II elaborates on the motives for building a new dataset on external financing and explains how the new dataset was constructed. Section III presents the aggregated results of the new database, while Section IV highlights the changing patterns. Section V compares trends in external financing across countries and tests the determinants of private-sector and public-sector financing. Lastly, Section VI reviews the main findings of the paper.

II. DATA SOURCES

A. Existing Databases

5. **There are two different definitions of public external flows.** External public flows may reflect external flows coming from an official bilateral creditor (such as the government of the United States) to a debtor country. The concept of public flows is, in this case, associated with the source of the flows. However, public external flows can also be interpreted as external flows of various sources being directed to the public sector of a debtor country. In that case, public is referred to the nature of the recipient. Most papers analyze trends in external public finance to LICs from the creditors' perspective (see Dorsey et al. (2008), Nunnenkam and Thiele (2006), Claessens et al (2007)).

6. **There are also two main data sources on public external flows.** A database can be constructed using borrowers or lenders data. On one hand, the main databases compiled by the IMF—being the World Economic Outlook (WEO) and the Balance of Payments Statistics—are drawn using the data reported by the debtor countries. On the other hand, aid flows published by the Organization for Economic Co-Operation and Development (OECD) originate from the Development Agency Committee (DAC) members, which are the creditors. The World Bank in its publication *Global Development Finance* (GDF) mixes the two different data sources. Public and publicly guaranteed debt data are provided by member countries (the debtors) through the Debt Reporting System, while short-term debt for some countries are derived from creditor sources (such as data on officially guaranteed suppliers' credits compiled by the OECD) and lending from multilateral institutions and government lending agencies are confirmed by creditors' statements and reports.

7. **Magnitude of external public flows can be discussed with the use of different debt indicators.** Given that the spectrum of indicators is large, analysis can point to different estimates. Annual flows may be presented on gross or net basis and may cover only certain types of debt. External flows may represent the consolidated amounts of public-sector long-term disbursements (gross lending). These flows can be netted out from principal repayments and IMF repurchases (net flows on debt), and possibly interest payments (net transfers on debt). They may also include short-term debt, grants (including or excluding technical cooperation), and other public transfers, such as humanitarian aid and technical assistance.¹

8. **The provision and the related-recording of debt relief in the national accounts complicate the manipulation of data.** Debt relief can be recorded in various ways according to the creditors' choice of vehicle to provide it and the methodological choice of the

¹ Many publications refer to the concept of aggregate net resource flows when discussing scale in external financing. It does not take into account interest payments when deriving net lending and excludes short-term debt flows and other medium and long term capital flows.[need to look at the def. again].

authorities (Box 1). Thus, it is critical to understand how debt relief is treated to ensure that the database covers all debt relief flows and derive accurately net transfers on debt. Lastly, if the application of the fifth manual regarding the recording of data is not respected, this complicates further the aggregation of data.

Box 1. The Accounting of Debt Relief

Debt relief may be presented in various ways in a balance of payments.^{1/} It is thus important to understand the treatment of debt relief provided by individual creditor and how the balance of payments reflect the debt relief.

- Grant-type of debt relief is usually shown as a current public official transfers in the current account. Because the relief is shown explicitly in the balance of payments, resulting-debt service payments (interest payments and amortization repayments) do not incorporate the relief. The debt service is thus presented on a gross basis and it does not reflect the actual amount due or paid.
- The benefits of a flow rescheduling may be presented as an exceptional financing item below the overall balance. Like the debt relief-grants, the relief is explicitly presented. Thus, the debt service payments associated with the debt maturities that were subject to a rescheduling are shown on a gross basis.
- When debt relief is the result of a stock-of-debt operation, the debt cancellation is shown as a capital transfer in the capital account in the year the operation takes place. That transfer captures the total debt relief that the country will benefit beyond the year the operation takes place. To only capture the annual cash flow relief provided in the year that operation takes place, a contra-debit entry is recorded within the amortization repayments to nullify relief covering future principal repayments. During the year, the operation takes place, debt service payments are presented on a gross basis and thereafter on a net basis. Thus, during the year the operation takes place, data on capital transfers and amortization repayments need to be re-treated to only capture the flows occurring during that year. Beyond that year, the debt relief is presented implicitly in the balance of payments with reduced debt service payments.

Thus in order to correctly estimate debt service paid, one needs to know whether the country has benefited from debt relief and how the debt relief has been presented in the balance of payments for each type of debt relief. Ignoring that process and not re-treating the data not only hinders comparability across countries, but also may lead to inaccurate estimates of the debt service payments and public-sector flows.

^{1/} In the fiscal accounts as well.

9. **The coverage of key financial flows in the balance of payments may differ from one country to another.** Although the statistics department at the IMF promotes the use of the fifth manual to record data in a balance of payments, there is no mechanism to enforce it.

Therefore, the resulting lack of homogenous treatment complicates the construction of an aggregated database across countries. Capital grants should be recorded as a capital transfers in the capital account, but appear sometimes as an official public transfers in the current account. In addition, private short-term capital, excluding variations in commercial banks' NFA, are sometimes added to errors and omissions in the analytical balance of payments summary table, making it impossible to only estimate the private flows.

10. **The nature and composition of private-sector flows are less subject to different treatment or interpretation.** Most databases capture the net position of the main aggregates, that is the liabilities are deducted from the assets. However, some differences may remain. First, private non-guaranteed debt in the set of countries covered in this paper is often subject to an estimate due to a lack of reliable data, and that estimate may differ across databases. Second, some datasets focus on long-term capital flows, while others expand the spectrum of flows and include short-term flows.

All these complexities lead to different estimates of external public- and private sector flows (Box 2). As illustrated in Table 1, the World Economic Outlook (WEO) and the Balance of Payments Statistics Yearbook (BOPSY) databases indicate both declines in net transfers on debt during 2001-07. However, the WEO database points to flows being twice the level of those in the BOPSY database. According to the Global Development Finance (GDF), the net transfers had increased over the years, and the DAC database shows no significant change of ODA loans disbursement between 2001 and 2007. Trends in external flows to the private sector are broadly similar across the databases with some differences in the scale of flows.

Box 2. Definition and Coverage of External Financing Across Databases

Data from different sources were initially downloaded and analyzed to estimate trends and composition of external financing to the 18 SSA post-MDRI countries during 2001-07. The databases include World Economic Outlook (WEO) database, Balance of Payments Statistics Yearbook (BOPSY) database, Global Development Finance (GDF) database, and Development Agency Committee (DAC) database. There are some differences in the coverage of the data in terms of countries and time across the databases.^{1/}

Net inflows to the public-sector were derived using:

- **WEO:** Net debt flows to the public sector are estimated by summing up net liabilities to official debtors, debt forgiveness (including that granted by the IMF), official debt securities and deducting interest payments on external debt. Aggregated flows can be derived by adding current public transfers to net debt flows.
- **BOPSY:** The Finances are calculated by adding current public transfers, debt forgiveness (including that granted by the IMF), official debt securities (being the sum of portfolio net liabilities to the monetary authorities and the general government in form of bonds and notes and money market instruments) and net liabilities to official debtor (being the sum of other investment net liabilities in form of trade credits, loans and other liabilities to the general government; and other investment net liabilities in form of loans, currency and deposits, and other liabilities to the monetary authorities).
- **GDF:** It provides disaggregated data on net resources flows on debt (loan disbursements minus principal repayments) and net transfers on debt (net resources flows on debt minus interest payments) by types of creditors. Grants (excluding technical cooperation grants) can be added.
- **DAC:** It compiles Official Development Assistance (ODA) flows provided by DAC members. The flows are the sum of net ODA loans disbursements and ODA grants disbursements (the provision of debt relief is recorded through the grants).

Net inflows to the private-sector were derived using:

- **WEO:** External financing to the private sector is the sum of direct investment in reporting economy, foreign purchases of equities of domestic companies, debt instruments issued by the domestic private sector, other investment liabilities to the private sector, and private current transfers.
- **BOPSY:** Estimates of flows to the private sector are derived by adding direct investment in the reporting economy, portfolio investment liabilities (in form of equity and debt securities to the private sector), other private investment liabilities (the difference between other investment liabilities and net liabilities to the official debtors), and private current transfers.
- **GDF:** Private-sector flows are calculated by adding of foreign direct investment, portfolio equity flows, and workers' remittances, minus loan interest and FDI profits.

^{1/} During 2001-2007, BOPSY data are uneven for 10 countries out of the 18 included in this study. The list of countries with unbalanced data and the period covered is as follow: Benin (2001-2005); Burkina-Faso (2001), Cameroon (2001-2004), Ghana (2001-2006), Madagascar (2001-2005), Malawi (2001-2002), Mali (2001-2006), Niger(2001-2006), Senegal(2001-2004), Sierra Leone(2001-2006). GDF and DAC data are not yet available to the public for 2007.

Table 1: Comparison of Net External Financing to the Public and Private Sectors Across Available Databases

	2001	2002	2003	2004	2005	2006	2007	Averages		
	Estimates							2001-05	2006-07	
External Finance to the public sector										
Net transfers on debt										
<i>WEO</i>	10,5	6,2	5,9	3,9	6,9	6,0	1,7	6,7	3,9	
<i>BOPSY</i>	4,5	4,3	3,0	2,3	2,8	1,4	2,4	3,4	1,9	
<i>GDF</i>	2,4	2,3	0,4	2,6	1,4	2,1		1,8	2,1	
ODA loans disbursements [<i>DAC</i>]	0,2	0,4	0,3	0,3	0,2	0,3		0,3	0,3	
Current public transfers										
<i>WEO</i>	4,0	3,5	3,7	3,9	4,2	3,6	3,8	3,9	3,7	
<i>BOPSY</i>	3,3	3,7	3,5	3,6	3,5	3,5	3,9	3,5	3,7	
Grants (excl. tech. coop.) [<i>GDF</i>]	7,2	8,9	8,7	12,1	9,2	33,3		9,2	33,3	
ODA grants disbursements* [<i>DAC</i>]	8,9	11,2	10,0	12,7	9,1	10,2		10,4	10,2	
External Finance to the private sector										
Foreign Direct Investment										
<i>WEO</i>	2,0	2,7	2,2	1,8	1,6	2,6	3,4	2,1	3,0	
<i>BOPSY</i>	2,0	3,1	2,4	1,9	2,6	3,3	3,4	2,4	3,4	
<i>GDF</i>	2,5	3,3	2,4	2,5	2,0	2,6		2,5	2,6	
Portfolio Investment										
<i>WEO</i>	0,7	0,1	0,5	0,8	1,3	0,7	0,7	0,7	0,7	
<i>BOPSY</i>	0,2	0,1	0,1	0,0	0,0	0,0	0,0	0,1	0,0	
Equity portfolio investment [<i>GDF</i>]	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
Private transfers										
<i>WEO</i>	2,4	2,7	3,1	3,4	3,8	4,3	4,5	3,1	4,4	
<i>BOPSY</i>	2,6	2,8	3,3	3,4	3,7	4,4	4,5	3,2	4,4	
Workers' remittances [<i>GDF</i>]	1,5	1,6	1,7	1,8	1,7	1,9		1,7	1,9	
Other Investments										
<i>WEO</i>	-8,9	-4,2	-4,6	-4,7	-5,2	-8,0	-3,9	-5,5	-5,9	
<i>BOPSY</i>	1,5	1,3	0,3	1,1	1,0	0,6	1,1	1,1	0,8	

Sources: World Economic Outlook, IMF Balance of Payments Statistical Yearbook, Global Development Finance, DAC (OECD).

*including debt relief

B. Construction of a New Database

11. **A new dataset was constructed exploiting the detailed information enclosed in the balance of payments files for each country.** The purpose of this study is to analyze the external resource flows financing the public and private sector of the 18 SSA post-MDRI countries. As such, public flows refer to public-sector flows. The balance of payments of each country was subject to a thorough analysis to understand the definition of key parameters and their accounting treatment. The source of data is that of the debtors and span from 2001 and 2007. The data are on a net basis encompassing both the assets and liabilities for capital flows and the credit and debit for the current transfers.²

12. **The dataset offers a decomposition between long-term capital and other types of flows.** Although all external resources are a source of foreign exchange and can finance the current account of the balance of payments, the development impact may differ. For instance, private and public current transfers, but grants, may be more oriented to consumption than developing the productive capacities. Changes in net foreign assets by commercial banks may be volatile. Trade credits represent more short-term flows and clearly less geared at the development of human or physical infrastructure than foreign direct investment.

13. **Net public-sector flows are estimated by adding 15 variables.** The flows that finance the public sector are comprised of net long-term capital flows and other types of flows based on the variables of the balance of payments (Figure 1). Long-term capital flows include project and budget grants, project and budget loans from official creditors, lending from commercial banks, and purchase of government bonds by non-residents.³ They are netted out by deducting interest payments and amortization payments. Debt forgiveness is fully captured since the amounts of recorded debt relief (either as grants, a capital transfer or exceptional financing) are deducted from debt service payments.⁴ Other flows include all net public official transfers but grants (such as humanitarian aid and the provision of technical assistance) and other net public flows capture the specificities of some countries, such as arrears repayments or oil bonuses.

14. **Private sector flows are deriving by summing up 8 variables.** In the dataset, the flows that finance the private sector encompass also net long-term capital and other flows

² The reader should be aware that the compilation of such data is a difficult exercise as each country may report flows in a different way. While great care was applied in understanding the nature and coverage of each type of flows, they may still be errors in the estimates.

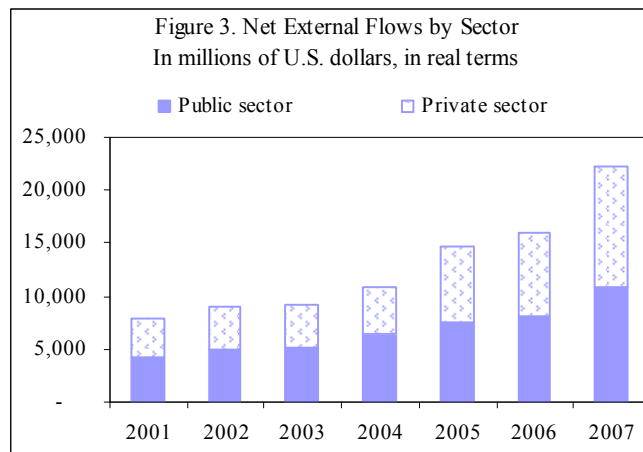
³ The database does not allow differentiating between concessional and non-concessional lending not between creditors.

⁴ When debt relief is provided in another form (such as stock or flow rescheduling), the resulting debt service is presented on a net basis, that is reflecting the effects of the relief.

being short-term capital flows and private transfers. As illustrated in Figure 2, net long-term capital flows are the sum of foreign direct investment and other long-term capital flows from which the interest payments on private debt are deducted. Short-term capital flows entail portfolio investment, accumulation of commercial banks' net foreign assets, short-term debt, and other short-term capital flows.⁵ Private transfers refer mostly to remittances. Net long-term and short-term liabilities come from commercial banks and companies, while individuals living abroad for more than [six] months / a year make private transfers.

III. OVERALL TRENDS IN EXTERNAL FINANCING

15. **Net external resources to the 18 SSA post-MDRI countries have surged in recent years.** Total aggregated net flows, financing both the public and private sectors, have steadily increased over the past seven years with a marked acceleration as of 2005 (Table 2). As a matter of fact, the flows have tripled from \$7.8 billion in 2001 to a significant amount of \$22.3 billion in 2007 in real terms (Figure 3).⁶ Relative to the countries' economic size, external financing increased by 11.4 percentage points of 2007 GDP over the same period, to reach 17½ percentage points of the GDP in 2007.^{7, 8} In per capital terms, real net external flows expanded from \$28 in 2001 to \$68 in 2007, constituting nearly a 150 percent increase.



16. **Both sectors of the economy have witnessed an increase in the availability of external financing.** Private-sector flows have expanded by \$7.7 billion in real terms driven mostly by foreign direct investment flows (+\$3.4 billion) and private current transfers (+\$3.7

⁵ Short-term debt are debt instruments with maturity of less than one year (mostly bank loans and trade credits).

⁶ All the figures in U.S. dollar terms in the text are expressed in 2000 prices using the U.S. consumer price index.

⁷ All data relative to GDP presented in the text are relative to the 2007 GDP.

⁸ If Cameroon is excluded (given that its GDP is 2½ times the average of the group), the surge in financing is stronger averaging 14½ percentage points of GDP.

Figure 1. Decomposition of Net Public-Sector Flows

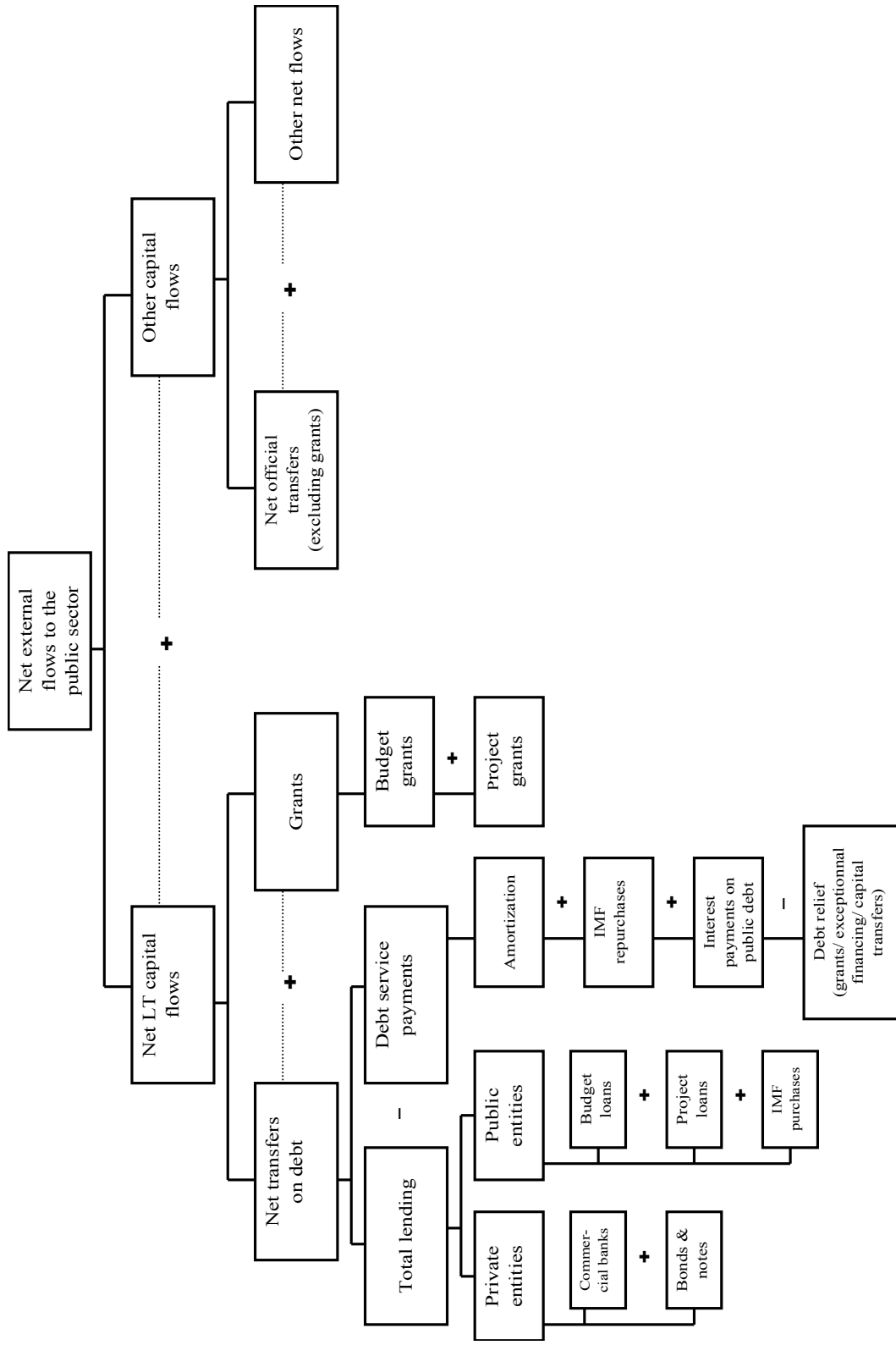
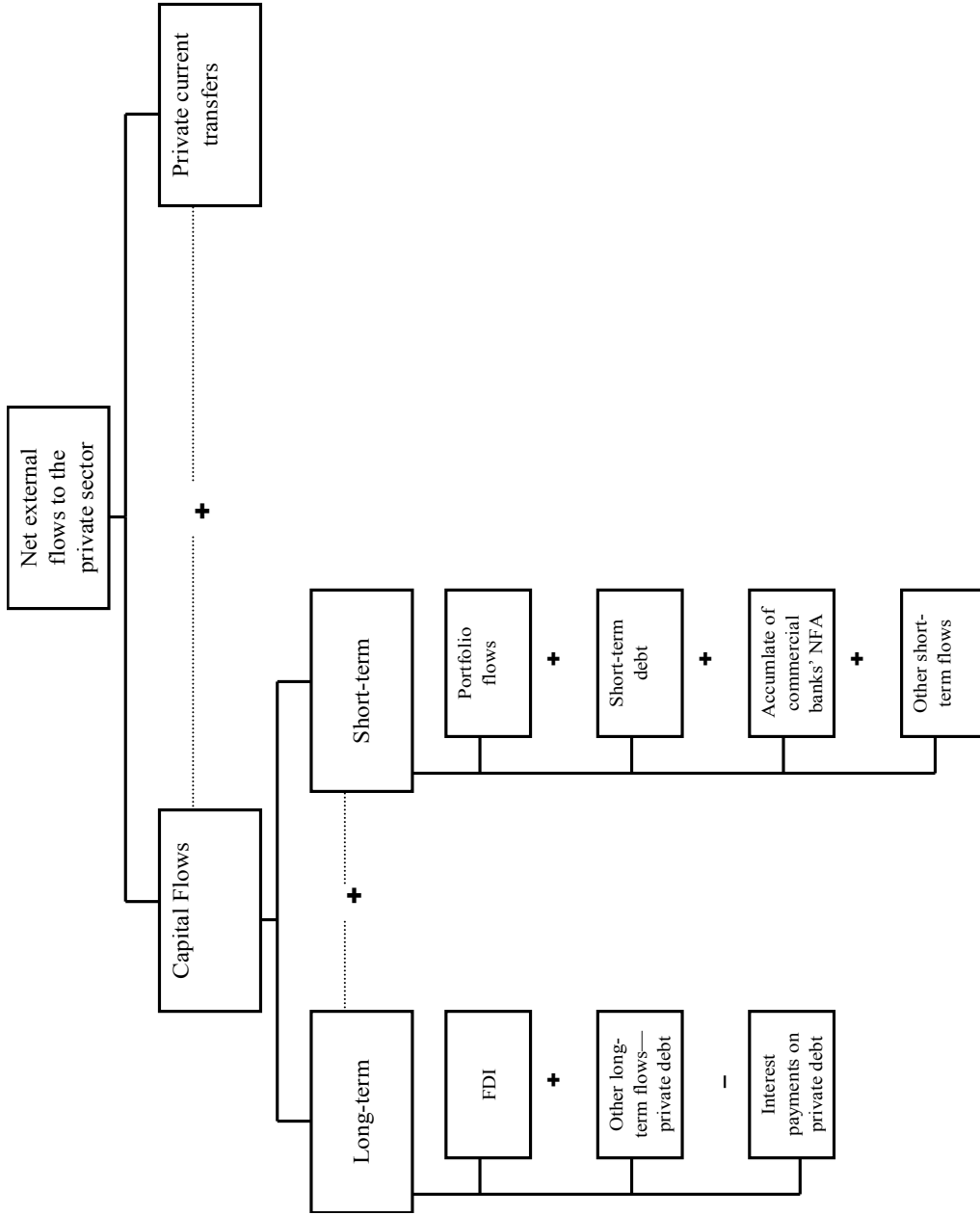


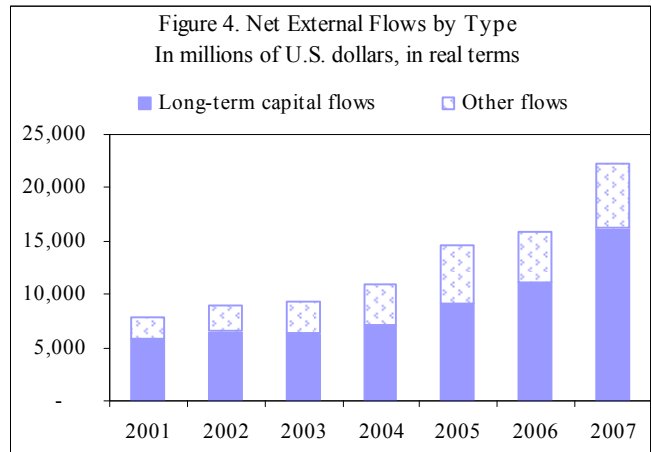
Figure 2. Decomposition of Net Private-Sector Flows



Billion) (Table 3). The public sector flows have also grown by \$6.6 billion over the same period on the account increases in grants (+\$3.6 billion) and net transfers on debt (+\$2.9 billion) (Table 4). Private- and public sector flows mounted to \$11.4 billion and \$10.8 billion in 2007, respectively. In per capita terms, private sector flows tripled to reach \$34.7, while public-sector flows doubled over the period to reach \$33.1.

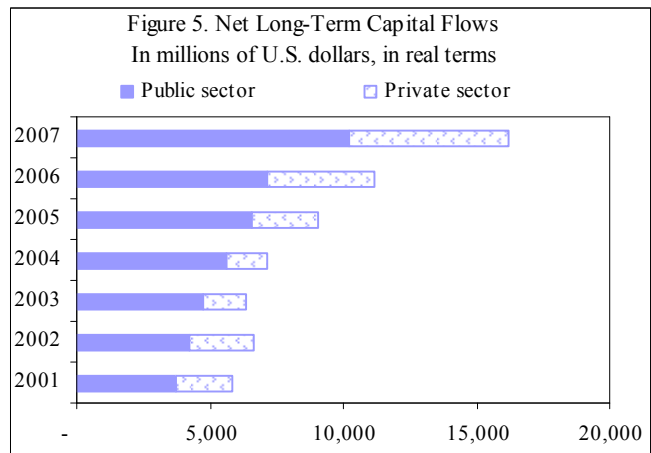
17. Long-term capital and other foreign exchange flows have expanded at the same

pace. Long-term capital to from both sectors of the economy have increased by \$10.4 billion to reach \$16.2 billion in 2007, while the other types of flows—which are less intended at developing the recipients’ productive capacities—have risen by \$4 billion to reach \$6 billion. The increase represents for both types of flows about 65 percent of the 2007 value. Consequently, their relative shares in total external financing have remained broadly constant, with the relative share of long-term capital averaging 70 percent during 2001-07 (Figure 4).



18. Most of the long-term capital flows are directed to the public sector, while most of the other foreign exchange flows are directed to the private sector.

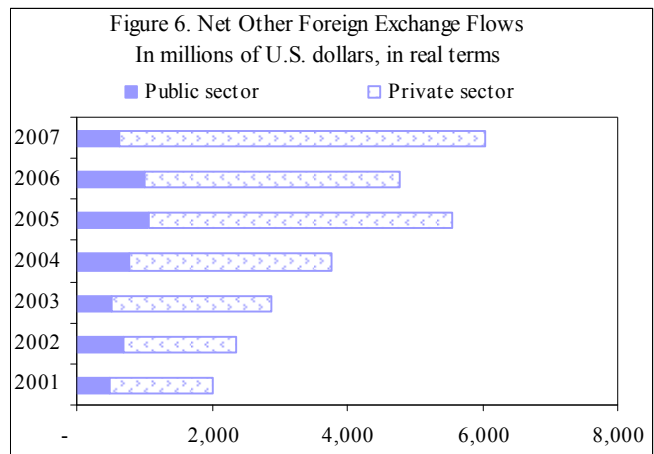
Despite strong annual growth in private-sector capital flows in 2006-07, averaging 54 percent per year, the public sector remained the main beneficiary of long-term capital flows. In 2007, they were 70 percent greater than those of the private sector. Likewise, public sector’s relative share in total long-term capital flows has remained strong but on a declining path, moving from 70 percent in 2001-05 to 64 percent in 2006-07. As regards the other foreign exchange inflows, the private sector attracted 89 percent of the flows in 2007 (compared with 76 percent in 2001), of which 99 percent reflected private current transfers (Figures 5-6).



19. The structural composition of public-and private sector flows has remained unchanged.

The decrease in debt service discharges thanks to several rounds of debt relief initiatives has compensated for the declining share of gross flows from public entities—and

all the underlying components—relative to total resource envelope has declined (from 147 percent in 2001 to 96 percent in 2007) (Table 5). As a result, the share of net flows from public entities in total public sector financing has stabilized (from an average of 89 percent during 2001-05 to 89.3 percent during 2006-07). On the private sector side, the structural composition of the financing is roughly the same, with private current transfers dominating, on average, aggregated capital flows.



IV. CHANGING PATTERN OF EXTERNAL FINANCING

20. **Although the aggregated patterns remain unchanged, there are signs that the financial landscape is evolving.** The 18 SSA post-MDRI countries tend to share the same pattern and composition of external finance as they are roughly about the same stage of economic development. Up to now, the public sector had played a dominant role in their economic activity with most of the financing originating from public sources and in the form of grants. However, the dataset shows that some characteristics have changed during the past two-three years: (i) the relative share of the private-sector flows in total external resources have shown an increasing trend; (ii) long-term foreign capital flows to the public sector have gained more weight with the implementation of debt relief initiatives and the related-increase in net debt transfers; and (iii) there are signs of net debt accumulation held by private entities in public flows.

A. Increasing share of private-sector flows

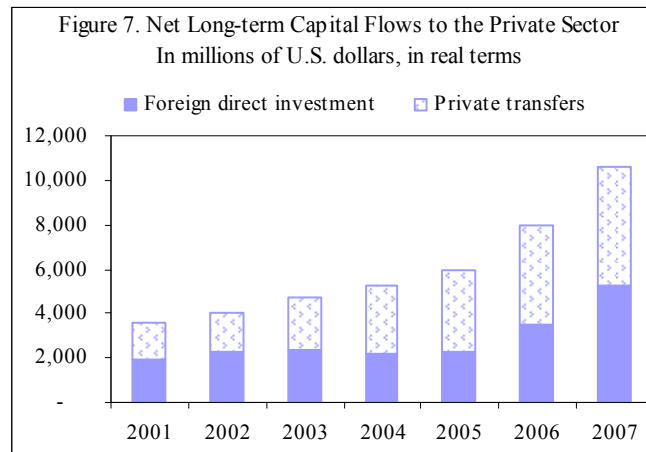
21. **Both sectors of the economy have experienced a surge in financing, but private-sector flows have grown more rapidly.** Private-sector flows have tripled over seven years with a marked acceleration in the flows as of 2005. Annual growth rates averaged 37 percent during 2005-07, compared to small annual rate 5 percent during 2001-04. As such, they dominated public-sector flows for the first time in 2007 by US\$500 million and their share in total annual external finance increased by 4 percentage points over the period to reach 51 percent in 2007.⁹

⁹ If Cameroon is excluded, the catch-up of the private sector is even more striking with the relative share of private-sector flows in total flows increasing by 8.6 percentage points over the same period.

22. **Long-term capital flows and private current transfers have contributed to this surge.** While private current transfers have steadily grown at an annual average of 10 percent a year during 2001-07, net long-term capital flows have expanded since 2005, when strong gains averaged 57 percent a year during the last three years. Relative to the weighted average income of the group, long-term capital flows, and private transfers rose by 3.1 percent and 2.9 percentage points of 2007 GDP, respectively. The surge in long-term private capital flows is related to large foreign direct investment flows. They were about the same magnitude than private current transfers in 2007 (\$5.3 billion) and had a similar share in aggregated private-sector flows (i.e., 46-47 percent) (Figure 7).

23. **The rapid expansion in FDI may be associated with soaring export commodity prices.**

Transnational corporations have recently invested in the exploration of new mining locations and expanded their existing activities in a number countries covered by the analysis. For instance, the surge in FDI flows to Cameroon was largely determined by investment of Total (France) and Pecten Cameroon (Shell group) in oil exploration. Likewise, sharp increases in the flows to Ghana in 2006 was also driven by the investment of two U.S. firms—New Gold Company and Alcoa—in the gold and aluminum sectors, respectively.¹⁰ [--].

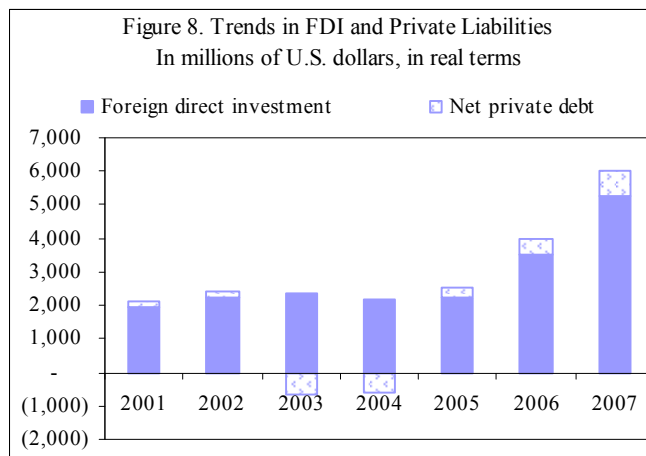


¹⁰ See World Investment Report, 2007.

24. **There are signs that net private debt flows—possibly associated with FDI—are rising.**

Most balances of payments record “other medium and long-term flows” in addition to FDI. These flows mostly represent the incurrence of private liabilities, which are defined in the dataset as disbursements less principal repayments less interest payments, which are often associated with developments in FDI. Net private debt flows reached an

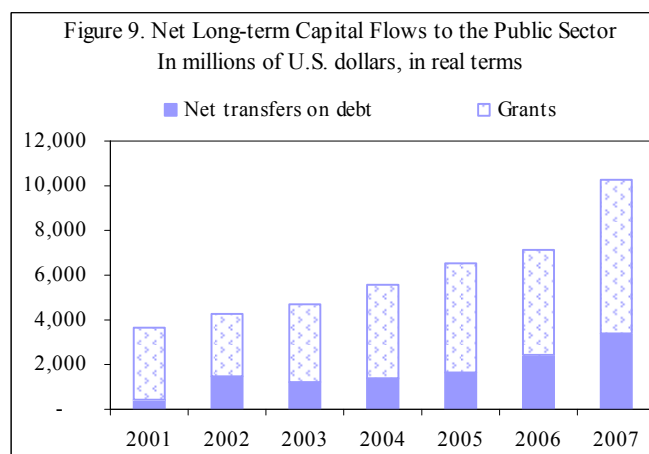
estimated \$0.5 billion in 2007, rising from 0.3 to 0.6 percent of 2007 GDP. These flows represented 6.3 percent of total net capital flows in 2007 (Figure 8).



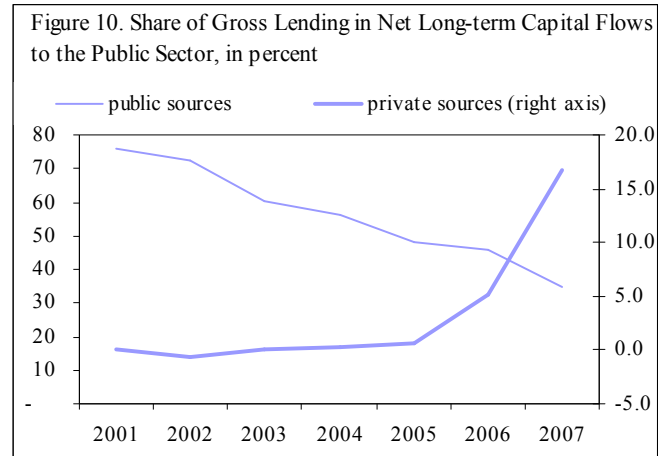
25. **While short-term flows have accounted for a larger share of external financing, they have remained insignificant.** Net portfolio flows reached an estimated \$155 million in 2007, equal to a constant 0.1 percentage point of GDP in 2007. [--].

B. Increasing share of net long-term capital in total public-sector flows

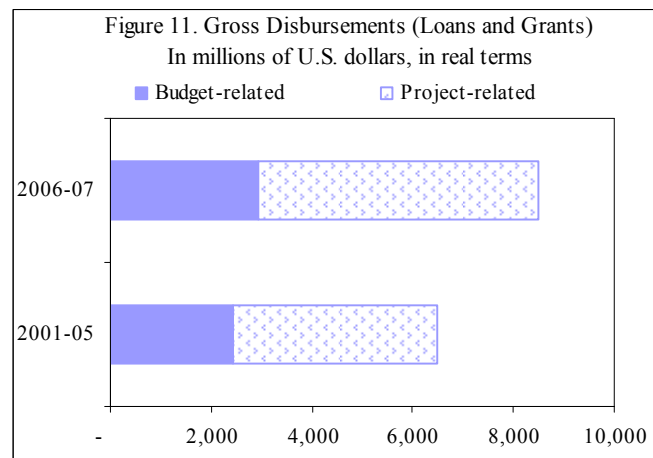
26. **Net long-term public capital flows to the public sector have surged.** These flows, which are composed of grants and net loans (excluding interest payments) from bilateral agencies and multilateral institutions, have almost tripled over the past seven years. They increased by \$6.5 billion in real terms to reach \$10.2 billion in 2007, that is equivalent to 5.2 percent of 2007 GDP. Increases in grants accounts for 56 percent of the surge and it is almost equally distributed between budget and project-related grants. The remainder (i.e., 44 percent) is accounted by net transfers on debt, of which 75 percent reflects lower debt service obligations following the implementation of the HIPC Initiative and MDRI. Although reduction in debt service payments—which declined from \$2.3 billion in 2001 to \$0.6 billion in 2007—do not represent a transfer of resources, it creates fiscal space to undertake development-related projects



27. **The relative share of net transfers on debt from public entities in net long-term capital flows has increased.** Although grants (excluding those in the form of debt forgiveness) have doubled over the past seven years, their relative importance in net long-term public capital flows has slowly decreased from 87.5 percent in 2001 to 71.4 percent in 2007 (Table 6). In contrast, the relative importance of net transfers on debt in total net flows from public sources has more than doubled with its share increased from 12.5 percent in 2001 to 28.6 percent in 2007. This reflects mainly the provision of debt relief since the relative share of gross lending from public sources in net long-term capital flows has declined from 76 percent in 2001 to 35 percent in 2007 (Figure 10).



28. **The relative importance of project-related disbursement in gross flows from public sources has progressively increased.** Project-related disbursements of loans and grants have continued to dominate budget-related ones. They amounted to \$6.5 billion in 2007 (that is 5.2 percent of GDP) and were almost twice as large as budget-related disbursements. Furthermore, their relative share in gross disbursements from public sources increased—although modestly—from 61½ percent in 2001 to 64 percent in 2007. However, given that debt forgiveness-related grants are excluded from budget grants, it is impossible to conclude whether donors and creditors are attempting to fulfill the implementation of the Paris Declaration on Aid Effectiveness.



C. Indications of private source debt in public-sector flows

29. **The expansion of private debt flows to the public sector has been concentrated on net bond flows.** Net bond flows increased from an average of zero in 2001-05 to \$408 million in 2006-07. This increase reflects two transactions. The issuance of dollar-denominated sovereign bonds for US\$750 million in December 2007 by Ghana and the purchase of government securities in Tanzania by nonresidents denominated in shilling

estimated at US\$225 million in 2006.¹¹ As no repayment of principal has yet taken place, the net flows are quite large. Net private lending to the public sector has remained marginal.¹² As a result, the relative share of lending from private entities in total net flows financing the public sector increased from zero in 2001 to 5.7 percent in 2007.

30. Other countries may shift some their financing needs into domestic debt markets in the near future. As half of the countries are now the subject of an international credit rating, there may be more and more countries keen on developing domestic investment instruments and the ability to mobilize higher domestic savings. Furthermore, a number of them have already expressed their interest in issuing sovereign bonds, including Rwanda, Tanzania, and Uganda. With the exception of Rwanda, Ghana, Tanzania, and Uganda belong to the richest countries of the group and as such may be the more creditworthy. [can we say more].

¹¹ Given that the flows are regulated into and out of Tanzania's capital account, the purchase of government securities by nonresident was done through commercial banks to circumvent the capital control.

¹² Only Malawi and Sierra Leone contracted liabilities to commercial banks, but on few occasions before 2006 and for limited amounts.

V. DETERMINANTS

31. **At first sight, the 18 SSA post-MDRI countries appear to share important characteristics.** These include low levels of income and human and physical capital; high levels of export concentration skewed towards primary commodities, and vulnerability to shocks. However, this apparent homogeneity masks some differences among them. There are still distinguishing characteristics in terms of resource endowments, income per capita, geographical location, economic performance, trade integration, quality of human and physical infrastructure, and quality of institutions and policies (Table 7 presents a classification of the countries by characteristics). It appears instructive thus to understand whether such differences could affect the availability of external finance, and thus the direction of policy advice.

A. Private Sector-Long-Term Capital Flows

Cross-country Comparison

32. **The vast majority of capital-based flows to the private sector are directed to countries that share the certain characteristics** (Table --). This include countries with

- Higher income. Larger economies—such as [---]—receive x percent more than ----
- Strong quality of institutions and policies;
- Higher quality of social and physical infrastructure;
- A high mineral content of their soil;
- Access to sea.

33. **The increases in private financing were however more broad-based:**

- Although resource-rich countries received larger flows, both resource-rich and non-resource-rich experienced the same growth in the flows.¹³
- Although coastal countries experienced in general greater external finance, geographical location did not affected the variations.
- COMESA countries receive larger flows than WAEMU countries

¹³ Cameroon is the only hydrocarbon-rich country in the sample and is pulling down the average increase in net long-term capital flows for the mineral and hydrocarbon-rich countries as a whole.

34. **Interestingly other factors did not affect the size of nor the increases in the financing.** Trade integration and debt distress ratings do not appear to influence the availability of foreign private-sector financing. [---].

35. **An analysis on the behavior of FDI brings similar results.** [explain which results]. However, as large FDI has been directed to Tanzania and Zambia, this makes FDI being directed to countries with lower levels of income.

Regression results

36. **The determinants of long-term capital flows to the private sector can reflect external or internal factors.** The external factors—so-called “push factors”—may entail rising commodity prices, abundant global liquidity, and investors search for promising profits prospects. The internal factors—so called “pull factors”—mirror the countries’ macroeconomic and structural conditions, such as sound macroeconomic policies and good quality of physical and human capital (Box 3). While low-income countries cannot control for external factors, they can influence—to some extent—the conditions of the domestic factors. It appears thus critical to analyze the relative importance of external and internal determinants to assess if the flows may be short-term or long-term phenomena, identify potential vulnerabilities, and draw adequate policy advice.

37. **This section aims at identifying the domestic determinants that have influenced the scale of long-term private capital flows in the 18 SSA post-MDRI countries.**¹⁴ Using the new dataset, net long-term flows directed to the private sectors are defined as the sum of FDI and other net long-term private investment (gross private investment minus interest payments on private debt) relative to GDP. Following the empirical literature, the explanatory variables retained control for countries’ economic performances, the quality of their institutions and policies, the quality of physical and human capital, and the importance of natural resource. Countries with favorable macroeconomic and business environment are expected to attract higher long-term private capital flows. Appendix 1 details the approach and data sources.

38. **The results are very similar to the previous findings.** The private sector of countries with better quality of infrastructure and higher income level has received larger net long-term flows (table 15). The results are similar using OLS or random effects model. Contrary to the expectation, other factors such as the quality of governance and the exploitation of natural resources do not appear to be significantly correlated with net long-term flows to the private sector. The implementation of the MDRI is not also correlated with

¹⁴ Current private transfers are excluded from the empirical analysis given that the motives for remitting are different from those of long-term private flows.

higher level of long-term private flows and the specificity of Sao Tome and Principe is confirmed by the results.

Box [3]. Review of the Recent Literature on the Determinants of Long-Term External Private Sector Flows

External factors have been important determinants of private capital flows to developing countries such as SSA post-MDRI countries. With abundant global liquidity during the last years and investors search for promising profits prospects, developing and emerging countries were facing a surge in private capital flows, which benefited to post-MDRI countries (Kose et al., 2006; IMF, 2007). The emergence of sovereign wealth funds in emerging markets and resource-rich countries as well as the growing number of private investment funds focusing on African countries increased the financing opportunities for these countries (IMF, 2008).

Domestic factors have also played a major role in attracting private capital flows. A number of empirical studies have confirmed the importance of natural resources availability, including oil and non-oil mineral commodities, in African countries attractiveness (Asiedu (2006) and IMF (2008)). The business environment, which includes indicators on the macroeconomic performance, infrastructure availability, financial development, trade openness, quality of institutions, and the availability of skilled workers, is also a critical factor in attracting private foreign capital. Recent studies have illustrated its importance vis-à-vis developing countries in general, and particularly to African countries. For instance, Alfaro et al. (2006) and Bénassy-Quéré et al. (2007) find that the quality of institutions is a major determinant of FDI flows in developing countries. In the particular case of African countries, Asiedu (2006) and Kinda (2008) highlight that the availability of good infrastructure encourages FDI. Other factors such as a strong economic growth or an important market size are also important determinants of long-term private capital flows (Asiedu, 2006a; Kinda, 2008; IMF, 2008).

B. Public-Sector Long-term Capital Flows

Cross group comparison

39. **The behavior of long-term public capital flows appeared to be dominated by a number of characteristics.** They appear to be targeted to good performers with social and economic needs. There are wide variations in the availability among the different sub-groups (Table --). They appeared to be greater for countries:

- with lower income levels (flows averaged -- percent of GDP in 2006-07 as opposed to -- percent of GDP in countries with higher income level).

- not exporting minerals or hydrocarbons (flows averaged -- percent of GDP in 2006-07 as opposed to -- percent of GDP in countries that have a high mineral and hydrocarbon content of their export base).
- with lower quality of human and physical infrastructure.
- being landlocked (average flows averaged -- percent of GDP in 2006-07 as opposed to -- percent of GDP for coastal countries).
- with good quality of institutions and policies (average flows averaged -- percent of GDP in 2006-07 as opposed to -- percent of GDP in countries with weak institutions and poor policies) and moderate debt distress rating.
- It is interesting to note that COMESA countries have benefited from greater magnitude of aid compared to WAEMU countries.

Regression results

40. **The criteria for the allocation of aid have shifted to selectivity.** The approach to aid policy has shifted over time from a strategy of aid-financed investment in the 1970s towards a strategy of aid-induced economic reforms in the 1980s. Since the publication of the World Bank's strong critique of aid in *Assessing Aid* in the late 1990s, the policy shifted to the concept of selectivity. The efficiency of aid allocation is now deemed greater when aid is directed to countries with better policy regimes (selectivity) since it strengthens its impact on growth. Since then, there has been a general acceptance among stakeholders that policies and institutions matter and that was validated in the Monterrey Consensus signed by all major donors in 2002. Empirical evidence is however mixed (see Box 4 for a review).

41. **Using the same methodology, the selectivity of net long-term capital flows to the public sector is tested.** Instead of using aid, which is a donor-based concept, the dependant variable is the net long-term capital flows to the public sector per capita in real term. The explanatory variables, in line with Dollar and Levin (2006), capture the financing needs of recipient countries, their population size, and the quality of their governance. GDP per capita is expected to affect negatively the flows, with richer countries receiving less. The effect of population varies across studies with a larger number of them concluding that public-sector flows (or aid) are greater for smaller countries. Lastly, it is expected that countries with better governance would attract more flows if selectivity is applied.

42. **The exercise is carried over two steps.** The determinants of the allocation are first tested with the OLS method. Second, the allocation is further analyzed in countries that have received the highest and lowest amounts of public flows, to control for potential heterogeneity in the previous results. This is done in using quantile regression method. Appendix 2 gives the details of the data and the approach taken.

43. **The quality of institutions appears to be a determinant of long-term capital flows to the public sector.** The results of the regression analysis using the OLS method indicate that governance affects significantly the level of flows (table 16). As shown by Table [--], the five first best-ranked countries have benefited from flows being [--] percent higher. This result is consistent with other studies, such as Claessens, 2007; and Word Bank, 2008. However, we find no evidence that governments of smaller countries (even when Sao Tome and Principe is excluded), nor poorer countries receive more long-term flows contrary to other studies.

44. **Taking into account the heterogeneity in the allocation, the results show that donors applied more the selectivity criteria.** Likewise, countries needs do not significantly affect the aid allocation using OLS method. However, the needs become highly significant for countries ranked in the first quintile (Table [--]). For these countries—with a relatively higher income level—donors have allocated more aid to the poorest among them. In contrast, creditors have paid less attention to the income level in allocating capital flows to the last quintile—being the poorest countries. Similarly, to the OLS and random effects results, countries with stronger governance received higher level of capital flows. However, creditors are less focusing on governance when allocating flows to the poorest countries (table 17). The validity of this result is confirmed by the fact that the marginal effect of governance on long-term public flows increases with countries income level (figure 12).¹⁵ Population remains insignificant.

¹⁵ The marginal effects are obtained after controlling for other potential determinants of aid as in the previous regressions.

Box [4]. Review of the Recent Literature on Aid Allocation

A number of studies on aid selectivity highlight recent improvements in aid allocation with more attention on developmental concerns than on strategic and political interests.¹ Dollar and Levin (2006) find that multilateral donors and to less extent bilateral donors improved their selectivity between 1984-89 and 2000-03. According to the authors, donors allocate more aid to poorer countries and countries with better institutions. Sundberg and Gelb (2006) show an improvement in donors' selectivity over time with more focus on poverty and policy in SSA countries. Claessens et al. (2007), using a sample of 147 recipient countries over 1970-2004, indicate changes in aid allocation in the beginning of the 1990s that are intensifying over time. The authors find that countries' economic needs, and the quality of their policies and institutions are important determinants of aid allocation while factors such as debt, countries size, and colonial linkages are less important. Bandyopadhyay and Wall (2007), covering a sample of 135 countries in 1995, 2000, and 2003, find that recipient countries per capita income negatively affects aid. The authors find also that infant mortality, civil and political rights and government effectiveness are positively associated with aid. A World Bank (2008) study indicates that donors prefer to give aid to poorer countries, with higher portion of aid allocated to SSA countries and higher performer countries. Angeles, Azemar, and Noorbakhsh (2008) show that countries that receive more aid are those with lower per capita income, and better policies. The authors also find an evidence of improvement in aid allocation after 1998 with more attention on countries income and less attention on commercial interests.

Another part of the recent literature however argues that no significant improvement of aid allocation has occurred during the recent years. Nunnenkamp and Thiele (2006) illustrate that bilateral and multilateral aid responsiveness to changes in recipient countries institutions and policies are weak. The authors also find that multilateral donors such as the World Bank do not have better allocation of aid compared to bilateral donors. For bilateral donors, post-colonial ties remain important for countries like France, Netherlands, and the United Kingdom. Easterly (2007) with a broad analysis of aid agencies practices finds weak evidence of progress in aid allocation over time. The author does not find any evidence of increased aid selectivity with respect to recipient countries policies and institutions quality. The only improvement in aid allocation according to Easterly (2007) is the higher negative relationship between aid and recipient countries per capita income.

1/ See McGillivray (2006) and Claessens et al. (2007) for a comprehensive review of aid allocation literature.

VI. CONCLUSIONS

This paper has analyzed external financing in 18 Sub-Saharan Africa that have benefited from debt relief under the Multilateral Debt Relief Initiative. The paper first compared existing databases on external financing and pointed out differences in trends and estimated, particularly for flows directed to the public sector. Against this background, a new database was constructed using balance of payments information.

The new database shows that net external resources to post-MDRI Sub-Saharan African (SSA) countries have substantially increased before the financial crisis. Total aggregated net inflows financing both the public and private sectors have almost tripled from \$7.8 billion in 2001 to \$22.2 billion in 2007 in real terms. Relative to the countries' economy size, external financing increased by 11.4 percentage points of 2007 GDP, to reach 17½ percent of the GDP in 2007. A surge of foreign direct investment (FDI) and higher current private transfers explained the surge in private-sector financing. The increase in public-sector external financing reflected both the provision of grants and higher net transfers.

The analysis of the factors explaining the change in the landscape of external financing before the crisis shows that countries with higher level of income, stronger quality of institutions and higher quality of infrastructure attracted more private flows. The quality of institutions appears to be a determinant of external flows to the public sector. Based on quantile regression, the analysis of heterogeneity in aid allocation shows that donors were more selective when allocating aid to countries with a better quality of institutions.

Analytical Underpinnings of the Determinants of Long-Term Net Capital Flows to the Private Sector

Net long-term private capital flow is defined as the sum of FDI and other long-term private investment as a percent of GDP. The explanatory variables include the countries' economic size captured by the real GDP per capita. The quality of their institutions and policies is proxied by World Bank's Kaufmann index which is the average of the following variables: voice and accountability, political stability, governance effectiveness, regulatory quality, rule of law, and degree of corruption. The proportion of fixed and mobile phones subscribers captures the quality of physical capital; and a dummy variable differentiating mineral and hydrocarbon rich countries from others reflects the importance of natural resources.

The following model is thus estimated:

$$LTPCF_{it} = \alpha + \beta_1 GDP_{it} + \beta_2 Infrastructure_{it} + \beta_3 Governance_{it} + \delta_1 Mineral_i + \delta_2 MDRI_t + \delta_3 SaoT_i + \varepsilon_{it}$$

$LTPCF_{it}$ represents real Long-Term Private Capital Flows per capita in country i during year t . The model includes a dummy variable ($MDRI$) to control for the potential effect of the debt relief initiative on countries' attractiveness to private capital flows. This temporal dummy does not necessary capture the effects of the MDRI. It could also capture any other common shocks affecting all post-MDRI countries during 2006-2007 compared to the previous years. $SaoT$ is another dummy variable aiming to capture the specificities of Sao Tome and Principe, the highest recipient by far of long-term private capital (relatively to the small size of this economy) due to the oil exploration.

The level of income and the quality of infrastructure could be affected by the magnitude of long-term private capital received by a country. This is particularly relevant for infrastructure, which could be financed partially or entirely by external flows private flows. To reduce this potential endogeneity, we use as explanatory variables in the regressions a one-year lag of real per capita income and infrastructure variables.

The model is firstly estimated using OLS method. Since structural variable such as infrastructure and governance quality are relatively constant during a short period of time like in this study, estimation with fixed effect model are not the most suitable¹⁶. Random effects model, which is, based the strong assumption of non-correlation between explanatory variables and individual specific effects lead to similar results with the OLS method.

¹⁶ The test that all fixed-effects are non significant is accepted with a probability of 0.8.

Table 1 gives the names, definitions, and sources of all variables

Table 1. Definition and Sources of the Parameters

<i>Variables</i>	<i>Definitions</i>	<i>Sources</i>
GDP	One year lag Real GDP per capita	World Economic Outlook database
Governance	Arithmetic mean of the following index: voice and accountability, political stability, governance effectiveness, regulatory quality, rule of law, and degree of corruption	World Bank's Kaufmann Index
Infrastructure	One year lag of the number of phone subscribers (fixed and mobile) for 1000 people	World Development Indicators
Mineral	Dummy taking 1 for mineral or hydrocarbon rich countries and 0 for others	World Development Indicators and Balance of Payments data
MDRI	Dummy taking 1 during the two years of MDRI implementation (2006-2007) and 0 otherwise.	
SaoT	Sao Tome and Principe dummy	

Analytical Underpinnings of the Determinants of Long-term Flows to the Public Sector

Net long-term flow to the public sector is defined as: net lending from public sources (gross lending – amortization and interest paid) + budget and project grants

The dependant variable in the empirical analysis is net long-term flows to the public sector per capita in real term. The explanatory variables are defined following the literature of aid allocation and in line with Dollar and Levin (2006). Thus, the real per capita GDP and total population are included as a measure of the countries' needs and sizes, respectively. A two years lag of real per capita GDP is introduced to reduce potential endogeneity of this variable due to the possible impact of public flows on GDP. Table 1 gives the list, definitions and sources of the variables.

Thus, the model to estimate is the following:

$$LTFP_{it} = \alpha + \beta_1 GDP_{it} + \beta_2 Population_{it} + \beta_3 Governance_{it} + \delta_1 French_i + \delta_2 MDRI_t + \delta_3 SaoT_i + \varepsilon_{it}$$

$LTFP_{it}$ represents net long-term flows to the public sector of country i during year t . This model includes three dummies to control for important fixed factors. The $MDRI$ dummy controls for any significant change in net public flows after the MDRI implementation. Similarly to the case of long-term private capital flows, this dummy may not only capture MDRI effect. $French$ is a colonial ties dummy, which takes one for ex-French colonies and zero for other-almost all are England ex-colonies. It helps to control for some historical links that may affect public flows allocation.¹⁷ A last dummy controls for the specificity of Sao Tome and Principe, which is the smallest country in the sample receiving the highest relative amount of public flows.¹⁸

The model is firstly estimated with OLS method. Secondly, quantile method is used for the first time to assess the determinants of public flows allocation, controlling for the

¹⁷ In the past, political criteria affected clearly aid allocation. We use this dummy because with the recipient countries' perspective, we do not have breakdown of aid inflows by donor that are better for controlling colonial links effects.

¹⁸ This OLS model is an alternative to estimation as a panel using a fixed effects or random effects model. Random effects model is based on the assumption that the explanatory variables are not correlated with individual specific effects, which is less likely since for example some historic factors have been found to be important determinant of countries current institution and governance quality. Fixed effects model will control for all invariant factors such as colonial ties. However, given the short time of the analysis (2001-2007), fixed effects inclusion will lead to difficult identification of the effect of one interest variable, the governance quality that does not vary significantly over 6 years. The change in real GDP per capita in our sample of countries during the period of study is also limited.

heterogeneity in the distribution of the resource among recipient countries. It is important to note that countries in the first quintile -which receive lower public flows-, are mostly the richer countries, such as Cameroon and Senegal. The last quintile includes countries with the largest amount of public flows such as Burkina Faso, Mozambique, and Rwanda that are the countries with lower level of income.

All empirical studies on aid allocation are based on linear regressions or models that estimate the mean value of the amount of aid for given levels of explanatory variables (such as income per capita, population, and governance). These models estimate how the attributes of countries affect the average amount of aid they received. Contrary to OLS regression, which models the relationship between predictor variables and the conditional mean of a dependant variable, quantile regression models the relationship between predictor variables and the conditional quantile of the dependant variable.¹⁹ Understanding the heterogeneity in the allocation of long-term public flows with respect to the amount of resource received by countries could give a clearer message when evaluating the allocation of flows to the public sector and thereby strengthening the robustness of the results.

Table 1: Definition and Sources of the Parameters

<i>Variables</i>	<i>Definitions</i>	<i>Sources</i>
GDP	Two years lag of the Real GDP per capita	World Economic Outlook database
Population	Log of Population	
Governance	Arithmetic mean of the following index: voice and accountability, political stability, governance effectiveness, regulatory quality, rule of law, and degree of corruption	World Bank's Kaufmann Index
French	French ex-colonies dummy	
MDRI	Dummy taking 1 during the two years of MDRI implementation (200-2007) and 0 otherwise.	
SaoT	Sao Tome and Principe dummy	

¹⁹ Standards errors and confidence intervals of the coefficients of quantile regression can be estimated by asymptotic method or by bootstrapping. Results obtained by the two methods are robust (Koenker and Hallock 2001) with bootstrap method being the more practical one (Hao and Naiman, 2007).

Table 2: Total Net External Financing to the 18 Sub-Saharan African Post-MDRI Countries

	2001	2002	2003	2004	2005	2006	2007	Averages		
	Estimates							2001-05	2006-07	
	In millions of U.S. dollars; constant prices 1/									
Total net external flows	7825.2	9000.0	9244.8	10926.8	14645.0	15934.0	22242.3	10,328.4	19,088.1	
Public sector	4165.3	4895.4	5219.1	6379.8	7619.5	8164.1	10869.8	5,655.8	9,517.0	
Private sector	3659.8	4104.6	4025.8	4547.0	7025.6	7769.9	11372.5	4,672.6	9,571.2	
Long-term capital flows	5,821.0	6,654.2	6,360.5	7,154.9	9,082.7	11,151.4	16,210.4	7,014.7	13,680.9	
Public sector	3,689.3	4,219.0	4,711.9	5,597.9	6,545.7	7,142.6	10,222.8	4,952.8	8,682.7	
Private sector	2,131.7	2,435.2	1,648.6	1,557.1	2,536.9	4,008.8	5,987.5	2,061.9	4,998.2	
Other flows	2,004.1	2,345.8	2,884.3	3,771.9	5,562.4	4,782.6	6,032.0	3,313.7	5,407.3	
Public sector	476.0	676.4	507.1	782.0	1,073.7	1,021.5	647.0	703.0	834.3	
Private sector	1,528.1	1,669.4	2,377.2	2,989.9	4,488.6	3,761.0	5,385.0	2,610.6	4,573.0	
	In percent of GDP									
Total net external flows	11.3	12.3	11.2	11.7	14.1	14.0	17.4	12.1	15.7	
Public sector	6.0	6.7	6.3	6.7	7.2	7.1	8.4	6.6	7.7	
Private sector	5.3	5.6	4.8	4.9	6.9	7.0	9.0	5.5	8.0	
Long-term capital flows	8.4	9.1	7.5	7.8	9.1	10.0	12.8	8.4	11.4	
Public sector	5.3	5.8	5.6	6.1	6.6	6.4	8.1	5.9	7.3	
Private sector	3.1	3.3	2.0	1.7	2.5	3.6	4.7	2.5	4.2	
Other net flows	2.9	3.2	3.6	3.9	5.0	4.0	4.6	3.7	4.3	
Public sector	0.7	0.9	0.8	0.6	0.6	0.6	0.3	0.7	0.5	
Private sector	2.2	2.3	2.9	3.2	4.4	3.4	4.3	3.0	3.8	
	Per capita; constant prices									
Total net external flows	27.7	31.0	31.0	36.0	47.0	49.9	67.8	34.5	58.8	
Public sector	14.7	16.8	17.5	21.0	24.5	25.5	33.1	18.9	29.3	
Private sector	13.0	14.1	13.5	15.0	22.6	24.3	34.7	15.6	29.5	
Long-term capital flows	20.6	22.9	21.3	23.6	29.2	34.9	49.4	23.5	30.2	
Public sector	13.1	14.5	15.8	18.4	21.0	22.3	31.2	16.6	20.5	
Private sector	7.5	8.4	5.5	5.1	8.1	12.5	18.3	6.9	9.7	
Other net flows	7.1	8.1	9.7	12.4	17.9	15.0	18.4	11.0	13.6	
Public sector	1.7	2.3	1.7	2.6	3.4	3.2	2.0	2.3	2.5	
Private sector	5.4	5.7	8.0	9.8	14.4	11.8	16.4	8.7	11.0	

Source: Staff estimates.

1/ Using the U.S. consumer price index.

Table 3: Net External Resources Financing the Private Sector of Post-MDRI African Countries

	2001	2002	2003	2004	2005	2006	2007	Averages	
	Estimates							2001-04	2005-07
In millions of U.S. dollar, constant prices									
Total private inflows, net	3,659.8	4,104.6	4,025.8	4,547.0	7,025.6	7,769.9	11,372.5	4,084.3	8,722.6
Net total capital flows	2,034.5	2,338.9	1,609.3	1,468.5	3,328.0	3,341.7	6,050.8	1,862.8	4,240.2
Net LT capital flows	2,170.1	2,435.2	1,648.6	1,557.1	2,536.9	4,008.8	5,987.5	1,952.7	4,177.8
Foreign direct investment	1,922.8	2,235.0	2,341.5	2,152.6	2,241.9	3,514.9	5,274.6	2,163.0	3,677.1
Other net long-term investment	208.9	200.2	-692.9	-595.5	295.0	494.0	712.9	-219.8	500.6
Net short-term capital	-135.6	-96.3	-39.4	-88.6	791.1	-667.1	63.3	-89.9	62.4
Portfolio investment	38.4	78.8	60.3	6.8	167.2	15.2	155.3	46.1	112.6
Short-term debt	161.8	26.5	93.0	15.9	86.4	-161.8	85.1	74.3	3.2
Commercial banks' NFA (=accumulation)	-320.1	-245.0	-233.9	-291.0	289.9	-368.5	-350.2	-272.5	-142.9
Other ST capital	22.8	43.4	41.3	179.7	247.6	-151.9	173.1	71.8	89.6
Private transfers	1,625.3	1,765.7	2,416.5	3,078.5	3,697.6	4,428.1	5,321.7	2,221.5	4,482.5
In percent of GDP									
Total private inflows, net	5.3	5.7	4.9	4.9	7.0	7.0	9.1	5.2	7.7
Net total capital flows	3.0	3.3	2.0	1.6	3.4	3.0	4.9	2.5	3.8
Net LT capital flows	3.1	3.4	2.1	1.7	2.6	3.6	4.9	2.6	3.7
Foreign direct investment	2.8	3.1	2.8	2.3	2.2	3.2	4.2	2.8	3.2
Other net long-term investment	0.3	0.3	-0.8	-0.6	0.3	0.4	0.6	-0.2	0.4
Net short-term capital	-0.1	-0.1	0.0	-0.1	0.8	-0.6	0.1	-0.1	0.1
Portfolio investment	0.1	0.1	0.1	0.0	0.2	0.0	0.1	0.1	0.1
Short-term debt	0.2	0.0	0.1	0.0	0.1	-0.1	0.1	0.1	0.0
Commercial banks' NFA (=accumulation)	-0.5	-0.3	-0.3	-0.3	0.3	-0.3	-0.3	-0.3	-0.1
Other ST capital	0.0	0.1	0.0	0.2	0.2	-0.1	0.1	0.1	0.1
Private transfers	2.4	2.4	2.9	3.3	3.6	4.0	4.2	2.8	3.9

Source: Staff estimates.

Table 4: Net external Resources Financing the Public Sector of the 18 Sub-Saharan African Post-MDRI Countries

	Estimates						Averages		
	2001	2002	2003	2004	2005	2006	2007	2001-05	2006-07
	In millions of U.S. dollars; constant prices								
Total net inflows	4,197.0	4,908.7	5,286.8	6,365.7	7,391.2	8,132.8	10,853.9	5,244.5	9,396.5
Net long-term capital	3,689.3	4,219.0	4,711.9	5,597.9	6,545.7	7,142.6	10,222.8	4,607.6	8,733.8
Net transfers on debt	461.0	1,514.7	1,219.8	1,358.4	1,629.5	2,474.0	3,362.4	1,033.3	3,120.4
Net transfers on public originating debt	461.4	1,535.6	1,219.8	1,349.3	1,605.3	2,281.8	2,744.4	1,031.5	2,763.3
Debt service repayments	2,338.3	1,538.1	1,626.5	1,795.0	1,824.2	892.0	622.4	1,955.2	1,22.3
Total gross lending	2,799.3	3,052.7	2,846.2	3,153.4	3,153.6	3,366.0	3,984.9	2,988.5	3,242.7
Gross lending from public entities	2,799.7	3,073.6	2,846.2	3,144.3	3,129.4	3,173.9	3,366.8	2,986.7	2,885.6
Budget loans	901.0	1,017.5	734.0	806.8	910.4	823.5	760.8	856.2	593.5
Project loans	1,478.4	1,698.1	1,868.4	2,150.5	2,086.3	2,153.5	2,538.5	1,840.1	2,276.1
IMF disbursements	420.3	358.0	243.8	187.0	132.8	196.9	67.6	290.4	15.9
Gross lending from private entities	-0.4	-20.9	0.0	9.1	24.2	192.2	618.0	1.8	357.2
Grants	3,228.3	2,704.3	3,492.2	4,239.5	4,916.2	4,668.6	6,860.4	3,574.3	5,613.4
Budget grants	1,006.4	869.7	1,310.1	1,754.6	2,259.1	1,746.7	2,868.0	1,362.1	2,316.4
Project grants	2,221.9	1,834.6	2,182.1	2,484.9	2,657.2	2,921.9	3,992.4	2,212.2	3,297.0
Other net public inflows	507.7	689.8	574.9	767.9	845.4	990.2	631.1	636.9	662.6
Memorandum item:									
Net flows from public sources	3,689.7	4,239.9	4,711.9	5,588.8	6,521.6	6,950.4	9,604.8	4,605.9	8,376.7
Gross flows from public sources	6,028.0	5,777.9	6,338.4	7,383.8	8,045.7	7,842.4	10,227.2	6,561.0	8,499.0
Budget-related disbursement	3,327.7	2,245.3	2,287.9	2,748.4	3,302.3	2,767.1	3,696.3	2,442.0	2,925.8
Project-related disbursement	3,700.3	3,532.6	4,050.5	4,635.4	4,743.4	5,075.3	6,530.9	4,052.4	5,573.1
	In percent of GDP								
Total net inflows	6.0	6.7	6.3	6.7	7.2	7.1	8.4	6.6	7.7
Net long-term capital	5.4	5.8	5.7	6.1	6.4	6.4	8.1	5.9	7.2
Net transfers on debt	0.7	2.1	1.5	1.5	1.6	2.2	2.7	1.5	2.4
Net transfers on public originating debt	0.7	2.1	1.5	1.5	1.6	2.0	2.2	1.5	2.1
Debt service repayments	3.4	2.1	2.0	1.9	1.5	0.8	0.5	2.2	0.6
Total gross lending	4.1	4.2	3.4	3.4	3.1	3.0	3.2	3.6	3.1
Gross lending from public entities	4.1	4.2	3.4	3.4	3.1	2.8	2.7	3.6	2.8
Budget loans	1.3	1.4	0.9	0.9	0.9	0.7	0.6	1.1	0.7
Project loans	2.2	2.3	2.2	2.3	2.0	1.9	2.0	2.2	2.0
IMF disbursements	0.6	0.5	0.3	0.2	0.1	0.2	0.1	0.3	0.1
Gross lending from private entities	0.0	0.0	0.0	0.0	0.0	0.2	0.5	0.0	0.3
Grants	4.7	3.7	4.2	4.6	4.8	4.2	5.4	4.4	4.8
Budget grants	1.5	1.2	1.6	1.9	2.2	1.6	2.3	1.7	1.9
Project grants	3.2	2.5	2.6	2.7	2.6	2.6	3.2	2.7	2.9
Other net public inflows	0.6	0.9	0.7	0.6	0.8	0.7	0.3	0.7	0.5
Memorandum item:									
Net flows from public sources	5.4	5.8	5.7	6.1	6.4	6.2	7.6	5.9	6.9
Gross flows from public sources	8.8	7.9	7.6	8.0	7.9	7.0	8.1	6.9	7.7
Budget-related disbursement	3.4	3.1	3.2	3.0	3.2	2.5	2.9	3.1	2.7
Project-related disbursement	5.4	4.8	4.9	5.0	4.6	4.5	5.2	5.0	4.9

Source: Staff estimates.

Table 5: Distribution of External Financing by Sector and Types of Flows
(In percent)

	2001	2002	2003	2004	2005	2006	2007	Averages	
	Estimates							2001-05	2006-07
Aggregated data									
Total net external inflows	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Public sector	53.2	54.4	56.5	58.4	52.0	51.2	48.9	54.9	50.1
Private sector	46.8	45.6	43.5	41.6	48.0	48.8	51.1	45.1	49.9
Total net external inflows	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Long-term capital flows	74.4	73.9	68.8	65.5	62.0	70.0	72.9	68.9	71.4
Other flows	25.6	26.1	31.2	34.5	38.0	30.0	27.1	31.1	28.6
Long-term capital flows	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Public sector	63.4	63.4	74.1	78.2	72.1	64.1	63.1	70.2	63.6
Private sector	36.6	36.6	25.9	21.8	27.9	35.9	36.9	29.8	36.4
Other flows	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Public sector	23.8	28.8	17.6	20.7	19.3	21.4	10.7	22.0	16.0
Private sector	76.2	71.2	82.4	79.3	80.7	78.6	89.3	78.0	84.0
Private Sector									
Net external flows	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net total capital flows	55.6	57.0	40.0	32.3	47.4	43.0	53.2	46.4	48.1
Net LT capital flows	59.3	59.3	41.0	34.2	36.1	51.6	52.6	46.0	52.1
Foreign direct investment	52.5	54.5	58.2	47.3	31.9	45.2	46.4	48.9	45.8
Other net long-term investment	5.7	4.9	-17.2	-13.1	4.2	6.4	6.3	-3.1	6.3
Net short-term capital	-3.7	-2.3	-1.0	-1.9	11.3	-8.6	0.6	0.5	-4.0
Portfolio investment	1.0	1.9	1.5	0.1	2.4	0.2	1.4	1.4	0.8
Short-term debt	4.4	0.6	2.3	0.3	1.2	-2.1	0.7	1.8	-0.7
Commercial banks' NFA (=accumulation)	-8.7	-6.0	-5.8	-6.4	4.1	-4.7	-3.1	-4.6	-3.9
Other ST capital	0.6	1.1	1.0	4.0	3.5	-2.0	1.5	2.0	-0.2
Private transfers	44.4	43.0	60.0	67.7	52.6	57.0	46.8	53.6	51.9
Public Sector									
Net external flows	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net long-term capital	87.9	85.9	89.1	87.9	88.6	87.8	94.2	87.9	91.0
Net transfers on debt	11.0	30.9	23.1	21.3	22.0	30.4	31.0	21.7	30.7
Net transfers on public originating debt	11.0	31.3	23.1	21.2	21.7	28.1	25.3	21.7	26.7
Debt service repayments	55.7	31.3	30.8	28.2	20.6	11.0	5.7	33.3	8.4
Gross lending from public entities	66.7	62.6	53.8	49.4	42.3	39.0	31.0	55.0	35.0
Budget loans	21.5	20.7	13.9	12.7	12.3	10.1	7.0	16.2	8.6
Project loans	35.2	34.6	35.3	33.8	28.2	26.5	23.4	33.4	24.9
IMF disbursements	10.0	7.3	4.6	2.9	1.8	2.4	0.6	5.3	1.5
Gross lending from private entities	0.0	-0.4	0.0	0.1	0.3	2.4	5.7	0.0	4.0
Grants	76.9	55.1	66.1	66.6	66.5	57.4	63.2	66.2	60.3
Budget grants	24.0	17.7	24.8	27.6	30.6	21.5	26.4	24.9	24.0
Project grants	52.9	37.4	41.3	39.0	36.0	35.9	36.8	41.3	36.4
Other net public inflows	12.1	14.1	10.9	12.1	11.4	12.2	5.8	12.1	9.0
Memorandum items:									
Net flows from public sources	87.9	86.4	89.1	87.8	88.2	85.5	88.5	87.9	87.0
Gross flows from public sources	143.6	117.7	119.9	116.0	108.9	96.4	94.2	121.2	95.3
Budget-related disbursement	55.5	45.7	43.3	43.2	44.7	34.0	34.1	46.5	34.0
Project-related disbursement	88.2	72.0	76.6	72.8	64.2	62.4	60.2	74.7	61.3

Source: Staff estimates.

Table 6: Distribution of External Financing from Public Sources to the Public Sector
(In percent)

	2001	2002	2003	2004	2005	2006	2007	Averages	
	Estimates							2001-05	2006-07
Net flows from public sources	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Grants	87.5	63.8	74.1	75.9	75.4	67.2	71.4	75.3	69.3
Budget grants	27.3	20.5	27.8	31.4	34.6	25.1	29.9	28.3	27.5
Project grants	60.2	43.3	46.3	44.5	40.7	42.0	41.6	47.0	41.8
Net transfers on debt	12.5	36.2	25.9	24.1	24.6	32.8	28.6	24.7	30.7
Gross lending from public entities	75.9	72.5	60.4	56.3	48.0	45.7	35.1	62.6	40.4
Gross lending from private entities	0.0	-0.6	0.0	0.2	0.7	5.2	16.8	0.1	11.0
Gross flows from public sources	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Budget-related disbursement	38.6	38.9	36.1	37.2	41.0	35.3	36.1	38.4	35.7
Project-related disbursement	61.4	61.1	63.9	62.8	59.0	64.7	63.9	61.6	64.3

Source: Staff estimates.

Table 7 (continued). List of Countries by Classification

Income level 3/		Quality of institution and Policies 4/			Economic performance 5/	
Higher (8)	Lower (10)	Weak (4)	Medium (11)	Strong (3)	Good performers (11)	Weak performers (7)
Benin Burkina Faso Cameroon Ghana Mali Sao T. and P. Senegal Zambia	Ethiopia Gambia, The Madagascar Malawi Mozambique Niger Rwanda Sierra Leone Tanzania Uganda	Cameroon Gambia, The Sao T. and P. Sierra Leone	Benin Burkina Faso Ethiopia Madagascar Malawi Mali Mozambique Niger Rwanda Senegal Zambia	Ghana Tanzania Uganda	Benin Burkina Faso Ethiopia Ghana Madagascar Mali Mozambique Niger Senegal Tanzania Uganda	Cameroon Gambia, The Malawi Rwanda Sao T. and P. Sierra Leone Zambia

Table 7 (completed). List of Countries by Classification

Free Trade Area		Quality of human development 6/			Quality of physical infrastructure 7/		
WAEMU (8)	COMESA (6)	Other (4)	Higher quality (9)	Lower quality (9)	Higher quality (3)	Medium quality (7)	Lower quality (8)
Benin	Ethiopia	Cameroon	Cameroon	Benin	Gambia, The	Benin	Burkina Faso
Burkina Faso	Madagascar	Mozambique	Ghana	Burkina Faso	Ghana	Cameroon	Ethiopia
Mali	Malawi	Sao T. and P.	Madagascar	Ethiopia	Senegal	Mali	Madagascar
Niger	Rwanda	Tanzania	Malawi	Gambia, The		Mozambique	Malawi
Senegal	Uganda	Gambia, The	Rwanda	Mali		Sao T. and P.	Niger
	Zambia	Ghana	Sao T. and P.	Mozambique		Tanzania	Rwanda
		Sierra Leone	Tanzania	Niger		Zambia	Sierra Leone
			Uganda	Senegal			Uganda
			Zambia	Sierra Leone			

Sources: IMF, country data; World Bank, World Development Indicators; and United Nations, Human Development Report .

- 1/ The debt distress rating refers to the first one given under the LIC DSF as it may have influence more the scale of the net external financing.
- 2/ Based on the exports recorded in the balance of payments.
- 3/ Higher income level is defined as a GDP per capita (Atlas methodology) greater than US\$380.
- 4/ Reflects the classification of the World Bank's CPIA using the 2005-07 average.
- 5/ Good performers are defined as countries that have reached their HIPC completion point by December 2004.
- 6/ Number of phone subscribers (fixed and mobile) for 1000 people. Low quality of infrastructure is for countries with less than 50 phone subscribers per 1000 inhabitants. Medium quality of infrastructure is for countries with between 50 and less than 100 phone subscribers per 1000 inhabitants. High quality of infrastructure is for countries with 100 or more phone subscribers per 1000 inhabitants.
- 7/ Reflects the United Nations' Human Development Index. The index is based on adult literacy rate between 1995-2005 and the combined gross enrolment ratio for primary, secondary and tertiary education in 2005.

Table 15: Private capital flows determinants: OLS and Random Effects

	Dependant variable: Real Net Long-term private flows per Capita				
	OLS				Random Effects
	[1]	[2]	[3]	[4]	[5]
Lag Per capita Real GDP	0.036 (2.99)***	0.039 (2.97)**	0.040 (2.87)***	0.021 (2.96)***	0.021 (2.48)**
Infrastructure	0.090 (5.53)***	0.087 (5.85)***	0.071 (3.02)***	0.084 (4.47)***	0.084 (3.09)***
Governance index	-4.009 (1.14)	-4.872 (1.39)	-4.568 (1.31)	-5.329 (1.65)	-5.329 (1.25)
Mineral		-3.511 (1.28)	-3.405 (1.28)	-0.068 (0.04)	-0.068 (0.03)
MDRI			3.157 (0.83)	3.699 (1.10)	3.699 (1.27)
Sao Tome and P.				26.725 (1.87)*	26.725 (5.11)***
Constant	-9.123 (2.04)**	-9.129 (2.07)**	-9.375 (2.06)**	-6.902 (2.08)**	-6.902 (1.92)*
Observations	101	101	101	101	101
Number of countries	18	18	18	18	18
R-squared	0.40	0.41	0.41	0.54	0.54

Robust t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Sources: Author's estimates.

Table 16: Public capital flows determinants: OLS

	Dependant variable: Real Net Long-term public flows per Capita			
	[1]	[2]	[3]	[4]
Lag Per capita Real GDP	0.002 (0.17)	0.013 (1.26)	-0.002 (0.20)	-0.010 (1.35)
Log(population)	-0.074 (3.14)***	-0.063 (2.93)***	-0.006 (0.58)	-0.010 (0.80)
Governance index	0.168 (3.79)***	0.207 (4.72)***	0.196 (4.82)***	0.181 (4.98)***
Ex-French colony		-0.100 (3.55)***	-0.057 (2.49)**	-0.043 (2.13)**
Sao Tome and P.			0.475 (2.88)***	0.487 (3.06)***
MDRI				0.112 (4.05)***
Constant	0.489 (6.74)***	0.484 (6.98)***	0.348 (8.27)***	0.339 (7.58)***
Observations	126	126	126	126
Number of countries	18	18	18	18
R-squared	0.36	0.41	0.51	0.57

Robust t statistics in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Sources: Author's estimates.

Table 17: Public capital flows determinants: OLS, Random Effects and Quantile Regression

	Dependant variable: Real Net Long-term public flows per Capita				
	OLS	Random Effects	Quantile Regression		
			25%	50%	75%
	[1]	[2]	[3]	[4]	[5]
Lag Per capita Real GDP	-0.010 (1.35)	-0.007 (0.65)	-0.019 (3.57)***	-0.019 (1.74)*	-0.006 (0.29)
Log(population)	-0.010 (0.80)	-0.010 (0.55)	-0.013 (0.90)	-0.008 (0.63)	-0.009 (0.48)
Governance index	0.181 (4.98)***	0.176 (3.60)***	0.175 (6.21)***	0.188 (3.84)***	0.169 (2.54)**
Ex-French colony	-0.043 (2.13)**	-0.046 (1.39)	-0.031 (1.41)	-0.047 (1.85)*	-0.045 (1.46)
Sao Tome and P.	0.487 (3.06)***	0.480 (4.63)***	0.363 (1.49)	0.476 (2.08)**	0.868 (3.30)***
MDRI	0.112 (4.05)***	0.110 (4.18)***	0.083 (3.71)***	0.097 (3.54)***	0.091 (2.63)***
Constant	0.339 (7.58)***	0.328 (5.34)***	0.316 (6.74)***	0.360 (6.60)***	0.389 (3.90)***
Observations	126	126	126	126	126
Number of countries	18	18	18	18	18
R-squared	0,57	0,57	0,25	0,27	0,38

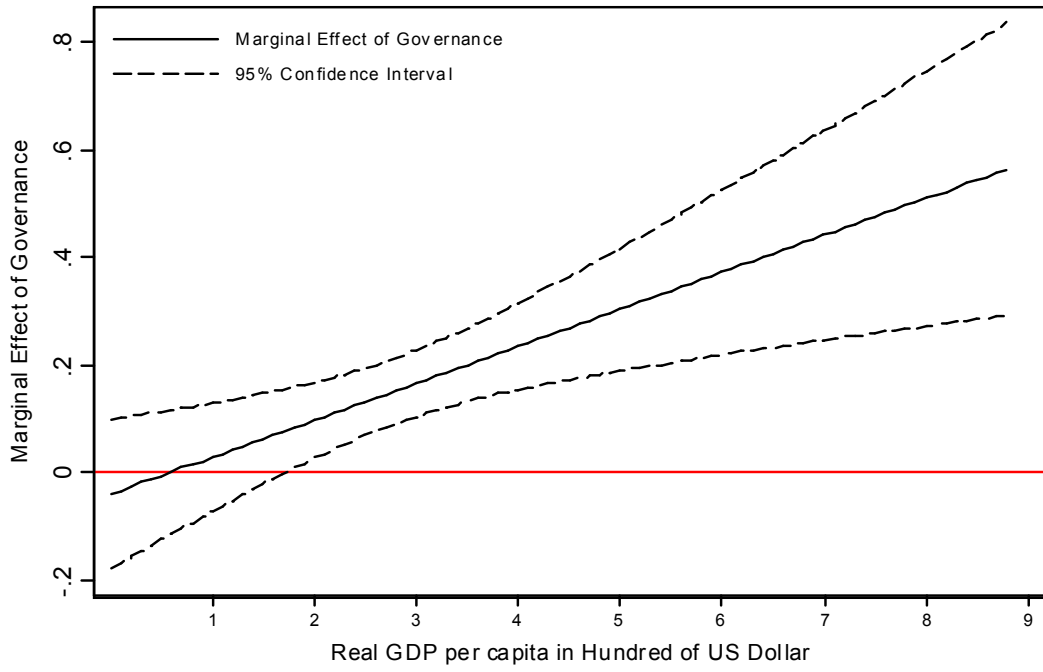
* significant at 10%; ** significant at 5%; *** significant at 1%

Absolute value of t statistics in parentheses

For quantile regression, bootstrapped (with 500 replications) t statistics in parentheses

Sources: Author's estimates.

Figure 12. Marginal Effect of Governance as Real GDP per capita changes
(Dependant variable: Real Net long-term public flows)



References

- Alesina A. and Weder B., 2002, "Do Corrupt Governments Receive Less Foreign Aid?" *The American Economic Review*, vol. 92(4), pp. 1126-1137.
- Alfaro L., Kalemli-Ozcan S., and Vadym V., 2006, "Why doesn't Capital Flow from Rich to Poor Countries", Forthcoming *Review of Economics and Statistics*.
- Angeles L., Azemar C., and Noorbakhsh F., 2008, "Selectivity and Foreign Aid Allocation: Is there an Improvement?", Paper presented in Workshop on Debt, Finance and Emerging Issues in Financial Integration.
- Asiedu E., 2006, "Foreign Direct Investment in Africa: The Role of Natural Resources, Market Size, Government Policy, Institutions and Political Instability", *The World Economy*, Vol. 29(1), pp. 63-77.
- Bandyopadhyay S. and Wall H. J., 2007, "The Determinants of Aid in the Post-Cold War Era", *Federal Reserve Bank of St. Louis Review*, 89(6), pp. 533-47.
- Bénassy-Quéré A., Coupet M., and Mayer T., 2007, "Institutional Determinants of Foreign Direct Investment," *World Economy*, 2007, pp. 764-82.
- Claessens S., Cassimon D., and Campenhout B. V., 2007, "Empirical Evidence on the New International Aid Architecture", IMF Working Paper No. 07/277.
- Dollar D. and Levin V., 2006, "The Increasing Selectivity of Foreign Aid, 1984-2003. *World Development*", Vol. 34(12), pp. 2034-2046.
- Dorsey T., Tadesse H., Singh S., Brixiova Z., 2008, "The Landscape of Capital Flows to Low-income Countries", IMF Working paper 08/51.
- Easterly W., 2007, "Are aid agencies improving?" *Economic Policy*, Vol. 22(52), pp. 633-678.
- Ghosh A., Goretti M., Joshi B., Ramakrishnan U., Thomas A., and Zalduendo J., 2008, "Capital Inflows and Balance of Payments Pressures - Tailoring Policy Responses in Emerging Market Economies", IMF Policy Discussion Paper 08/2.
- Gupta S., Powell R., Yang Y., 2005, "The Macroeconomic Challenges of Scaling Up Aid to Africa", IMF Working Paper 05/179.
- Gupta P., 2005, "Macroeconomic Determinants of Remittances: Evidence from India", IMF Working Paper 05/224.
- Hagen-Zanker J. and Siegel M., 2007, "The determinants of remittances A review of the literature", MGSOG Working Paper 3.

- IMF, 2005, "The Macroeconomics of Managing Increased Aid Flows: Experiences of Low-Income Countries and Policy Implications", Washington, D.C.
- IMF 2007 "Reaping the Benefits of Financial Globalization" (Washington, June 1).
Available via the Internet: www.imf.org/external/np/res/docs/2007/0607.htm.
- IMF, 2008, "Regional Economic Outlook, Sub-Saharan Africa", April, Washington, DC.
- Kinda T. 2008, "Infrastructures et flux des capitaux privés vers les pays de développement", *Revue Economique* 59(3), pp. 537-549
- Kose M. A., Prasad E., Wei S. J., and Rogoff K., 2006, "Financial Globalization: A Reappraisal," IMF Working Paper 06/189 (Washington: International Monetary Fund).
- Lartey E., 2007, "Capital Inflows and the Real Exchange Rate: An Empirical Study of Sub-Saharan Africa", *The Journal of International Trade & Economic Development*, Vol. 16(3), pp. 337-357.
- Lucas R. E., 1990, "Why Doesn't Capital Flow from Rich to Poor Countries?", *American Economic Review Papers and Proceedings*, Vol. 80(2), pp. 92-96.
- McGillivray M., 2006, "Aid Allocation and Fragile States", WIDER Discussion paper 2006/01.
- Montiel P. J., 2006, "Obstacles to Investments in Africa: Explaining the Lucas Paradox", Presented at the high-level seminar Realizing the Potential for Profitable Investment in Africa.
- Navaretti G. B. and Venables A. J., 2006, "Multinational Firms in the World Economy" Princeton University Press.
- Nunnenkamp P., and Thiele R., 2006, "Targeting Aid to the Needy and Deserving: Nothing But Promises?" *The World Economy*, Vol. 29(9), pp. 1177-1201.
- Sundberg M., and Gelb A., 2006, "Making Aid Work," *Finance and Development*, December 2006, pp. 14-17 Washington: International Monetary Fund.
- World Bank, 1998, "Assessing Aid: What Works, What Doesn't and Why?". Oxford University Press.
- World Bank, 2008, "Global Development Finance", Washington, DC.