External Finance and the Role of Multilateral Financial Institutions in South Asia: Changing Patterns, Prospects and Challenges

by

Jungsoo Lee
November 1991

ECONOMIC ANALYSIS AND RESEARCH DIVISION
ECONOMICS AND DEVELOPMENT RESOURCE CENTER

INTRODUCTORY NOTE

The Asian Development Bank Staff Paper Series presents the results of selected preliminary research undertaken by the Economics and Development Resource Center. It is designed to stimulate discussion and critical comment on socioeconomic issues facing the developing countries of Asia and the Pacific. It is hoped that in some small way the discussion generated by the series will increase our understanding of the development process in the region.

J. Malcolm Dowling

J. MALCOLM DOWLING
Officer-in-Charge
Economics & Development Resource Center
Asian Development Bank

ACKNOWLEDGMENT

The author gratefully acknowledges comments received from Messrs. J. Malcolm Dowling, W. T. C. Ho, A. I. A. Islam and R. O. Wada on the earlier draft of this paper. The author also acknowledges comments received from the participants in "South Asia as a Dynamic Partner: Prospects for the Future" Workshop, which was held in Kuala Lumpur, Malaysia in November 1990 and Honolulu, Hawaii in August 1991. Finally, the author wishes to thank Ms. E. Banaria for her research assistance and Ms. E. Olanda for efficient typing of many drafts of the paper.

ABSTRACT

The paper analyzes the changing pattern and future prospects of external finance to South Asia and reviews the role of external finance, particularly that of multilateral financial institutions, in the economic development in South Asia. South Asian countries have relied heavily on external finance as their domestic saving rates have been much lower than their investment rates. External financial flows to South Asian countries generally have been official development assistance (ODA). Although ODA still accounts for the majority of financial flows to South Asia, its share in total net flows declined sharply. The terms and conditions of external finance to South Asia worsened as the share of ODA declined and that of private flows increased. At the same time, the external debt situation in these countries deteriorated significantly during the 1980s. South Asian countries will need an increasing amount of concessional aid to meet their ever rising development challenges: poverty alleviation, human resource development, environmental protection, private sector development, and structural adjustment. The less promising prospects for the global supply of external finance justify the need for an increase in the role of multilateral financial institutions.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

ADB	Asian Development Bank
ADF	Asian Development Fund
APDEs	Asian and Pacific Developing Economies
BIS	Bank for International Settlement
EBRD	European Bank for Reconstruction and Development
FDI	Foreign Direct Investment
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
MFI	Multilateral Financial Institution
NIEs	Newly Industrializing Economies
NRI	Non-resident Indian
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
WID	Women in Development

I. INTRODUCTION

1. Even after decades of moderate economic growth, South Asia is still characterized by low income, large surplus labor and a high incidence of poverty. The economic dynamism which prevailed in East and Southeast Asia during the last decade has not spread widely in South Asian countries. The major challenge facing South Asian economies is to accelerate and sustain economic growth in order to achieve an acceptable standard of living for a rapidly growing population, a large proportion of which live in abject poverty.

2. As the base for domestic resource mobilization is weak in most South Asian countries, they have had to rely heavily on external resources for their economic development. External resources can play a positive role in economic development by providing required foreign exchange resources and enabling technology transfer. However, if not properly managed, it could also lead to external debt problems. The role of external finance in economic development, therefore, has long been an issue provoking debate.

3. There have been a vast number of empirical studies, supporting or rejecting the hypothesis that foreign capital inflows promote economic development. It is now generally agreed that foreign capital is only one of many factors determining development outcomes. Foreign capital can be made effective only when other factors, including domestic policies, are aligned properly to enhance the growth momentum.

4. The purpose of this paper is to analyze the changing pattern and future prospects of external finance to South Asia and review the past and future role of external finance, particularly that of multilateral financial institutions, in the economic development in South Asia. The structure of the paper is as follows. Section II reviews the characteristic pattern of external finance to South Asia as a whole from a historical perspective, while Section III provides a brief review of financial flows to each individual South Asian country. Section IV examines the medium-term prospects for financial flows to South Asia from a global perspective. Section V focuses on the role of multilateral financial institutions in economic development in general and in the development of South Asia in particular. A summary of findings is given in the concluding section.

II. CHANGING PATTERN OF EXTERNAL FINANCE TO SOUTH ASIA

5. Foreign capital flows from developed to developing countries either directly (bilaterally) or through multilateral institutions. Direct (or bilateral) flows are either from official agencies or from private sources. Official agencies include state and local governments, or their executing agencies, while private sources include commercial

banks, capital markets and other private sources. Multilateral institutions consist of two major groups: multilateral financial institutions (MFIs) and the United Nations (UN) agencies. MFIs include the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and regional development banks such as the Asian Development Bank (ADB). Official development assistance (ODA) is defined as those flows to developing countries provided by official agencies (or their executing agencies) and multilateral institutions, each transaction of which is administered with the promotion of economic development and welfare of developing countries as its main objective and is concessional in character.

6. The pattern and composition of external finance are associated with the stage of economic development in each country. Low income countries tend to rely on concessional official flows as their debt-servicing capacities are quite limited. High income countries rely more on non-concessional private flows because being more creditworthy, they have easier access to more competitive financing from commercial sources; moreover, they have greater scope for attracting foreign direct investment. As a country moves further to a still higher stage of economic development, it may become a capital exporter. Asian developing countries provide a good example of this process: low income South Asian countries rely mostly on concessional official flows; Southeast Asian countries are in the stage of attracting more private flows; and some of the newly industrializing economies (NIEs), which are in a higher stage of economic development, have already become capital exporters (see Jungsoo Lee and I. P. David, 1989, p. 11).

7. Foreign capital flows to Asian and Pacific Developing Economies (APDEs) grew rapidly in the late 1970s to reach a peak in 1981. They then started to fall steadily until 1985, due mainly to the sharp fall in private flows (see Table 1). Foreign direct investments, portfolio investments and export credits all showed a declining trend in the first half of 1980s. Since 1986, however, financial flows to APDEs have shown a rising trend again, helped by a significant rise in foreign direct investment. This reflects the changing cost structure in the Asian economies as wages and other costs increased rapidly in Japan and the NIEs.

8. Bilateral flows have been the major type of flows to the APDEs, accounting for about 60~90 per cent of total flows during the last two decades. While ODA showed a stagnation in the early 1980s, reflecting the "aid fatigue" phenomenon in some industrialized countries, it began to rise again in the latter half of 1980s largely due to the increased assistance from Japan.

9. Japan, in fact, has become the largest supplier of bilateral flows to APDEs since 1984. Its share in total bilateral flows rose from 28 per cent in 1980 to 58 per cent in 1989. The share of the US declined

Table 1. **Financial Flows to Asian and Pacific Developing Economies: 1970-1989**
(In million US dollars)

1. Classification by Types

	1970		1980	1985	1989	
	Amount	Share (%)			Amount	Share (%)
Official Development Assistance	2,423	63.7	7,715	7,697	12,283	41.9
Bilateral	..	..	4,747	4,749	8,720	29.7
Multilateral	..	..	2,968	2,948	3,563	12.1
Other Official Flows	407	10.7	2,582	2,299	4,987	17.0
Net Private Flows	973	25.6	3,880	1,545	12,059	41.1
TOTAL	3,803	100.0	14,177	11,541	29,329	100.0

2. Classification by Suppliers

	1970		1980	1985	1989	
	Amount	Share[a] (%)			Amount	Share[a] (%)
Bilateral Flows	3,467	91.2	9,935	6,548	22,559	76.9
Japan	1,032	(29.8)	2,752	4,332	13,147	(58.3)
United States	1,144	(33.0)	1,812	-2,224	2,686	(11.9)
Europe	806	(23.2)	4,090	3,770	4,765	(21.1)
Others	485	(14.0)	1,281	670	1,961	(8.7)
Multilateral Flows	336	8.8	4,242	4,993	6,770	23.1
ADB	16	(4.8)	458	775	1,527	(22.6)
IBRD	133	(39.6)	810	1,573	2,530	(37.4)
UN	79	(23.5)	545	649	716	(10.6)
Others	108	(32.1)	2,429	1,996	1,997	(29.4)
TOTAL	3,803	100.0	14,177	11,541	29,329	100.0

[a] Figures in parentheses imply shares in subtotal.

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues.)

sharply with the international debt crises and temporarily turned negative during 1985-1987 as loan repayments exceeded disbursements. The share of Europe in the total bilateral flows also fell during the past decade.

10. Multilateral flows to APDEs have been rising steadily in value terms. The IBRD and IDA are two major suppliers of multilateral flows. The share of ADB in the total multilateral flows has increased to reach 23 per cent in 1989. The South Asian countries and Southeast Asian countries particularly benefited from multilateral flows, while the NIEs virtually have stopped borrowing from multilateral financial institutions.

11. South Asian countries have relied heavily on external finance as their domestic saving rates have been much lower than their investment rates (see Table 2). The average investment-saving gap of South Asia as a whole in the 1980s was about 4.6 per cent of GDP, which was much higher than that of developing Asia as a whole. Among the South Asian countries, the gap was the highest in Sri Lanka (11.5 per cent), followed by Nepal (9.5 per cent) and Bangladesh (8.8 per cent).

Table 2. **Domestic Saving, Investment and Resource Gap in South Asian Countries**
(1981-1990 average: per cent of GDP)

	A. Domestic Saving	B. Investment	C. Resource Gap (C = B-A)
Bangladesh	2.6	11.4	8.8
India	20.3	23.9	3.6
Myanmar	12.4	15.6	3.2
Nepal	10.4	19.9	9.5
Pakistan	11.2	18.7	7.5
Sri Lanka	13.3	24.8	11.5
South Asia	17.5	22.1	4.6
Asian Developing Countries	22.9	23.0	0.1

Source: Asian Development Bank, *Asian Development Outlook 1991* (Manila, 1991); and country sources.

12. The share of South Asia in the total financial flows to the developing world rose from 7 per cent in 1980 to 15 per cent in 1989 (see Table 3). This increase is mainly attributable to the rising financial flows to India. The share of East Asia and Pacific countries also rose substantially because of the increased financial flows to China. Latin American and Caribbean countries, on the other hand, experienced a drastic decline in their share, from 35 per cent in 1980 to 14 per cent in 1989. This declining trend was more pronounced in long-term debt flows, where the share of Latin American countries fell from 37 per cent in 1980 to 3 per cent in 1989.

13. Financial flows to South Asian countries have generally been characterized by the dominance of ODA; an increasing share of multilateral flows; a relatively high reliance on European countries; and a low share of private flows. These characteristics have shown some changes during the last two decades. The share of ODA, although still high, has shown a declining trend. Japan has emerged as a major supplier of bilateral flows and private flows have shown an increasing trend. Another aspect of changing patterns in financial flows is a sharp rise in external debt.

A. Declining Share of ODA

14. Financial flows to South Asian countries generally have been in the form of ODA. Almost all financial flows to Bangladesh, Myanmar, Nepal and Sri Lanka have been ODA. However, the share of ODA has declined significantly during the last two decades, particularly since India and Pakistan started to borrow from the international capital market in the 1980s.

15. Although ODA still accounts for the majority of financial flows to South Asia, its share in total net flows declined sharply from 93 per cent in 1970 to 57 per cent in 1989 as a result of rapid rise in non-concessional flows. This share (57 per cent) is higher than the 41 per cent in Southeast Asian countries, but is close to the average for the developing world as a whole (see Figure 1). This implies that South Asia is not particularly favored in ODA allocations despite their low income status and large population. This argument is further strengthened by the amount of per capita ODA. In 1989, per capita ODA for South Asia ($5.5) was less than half the average for the developing world as a whole ($11.4).

16. In the case of multilateral loans, concessional flows used to be dominant, but the share of nonconcessional flows have become higher. This change is partly a reflection of the entry of China into the World Bank and IDA's increased emphasis on Sub-Saharan Africa. The share of South Asia in total concessional multilateral flows fell from 43 per cent in 1980 to 32 per cent in 1989, while that of Sub-Saharan Africa rose from

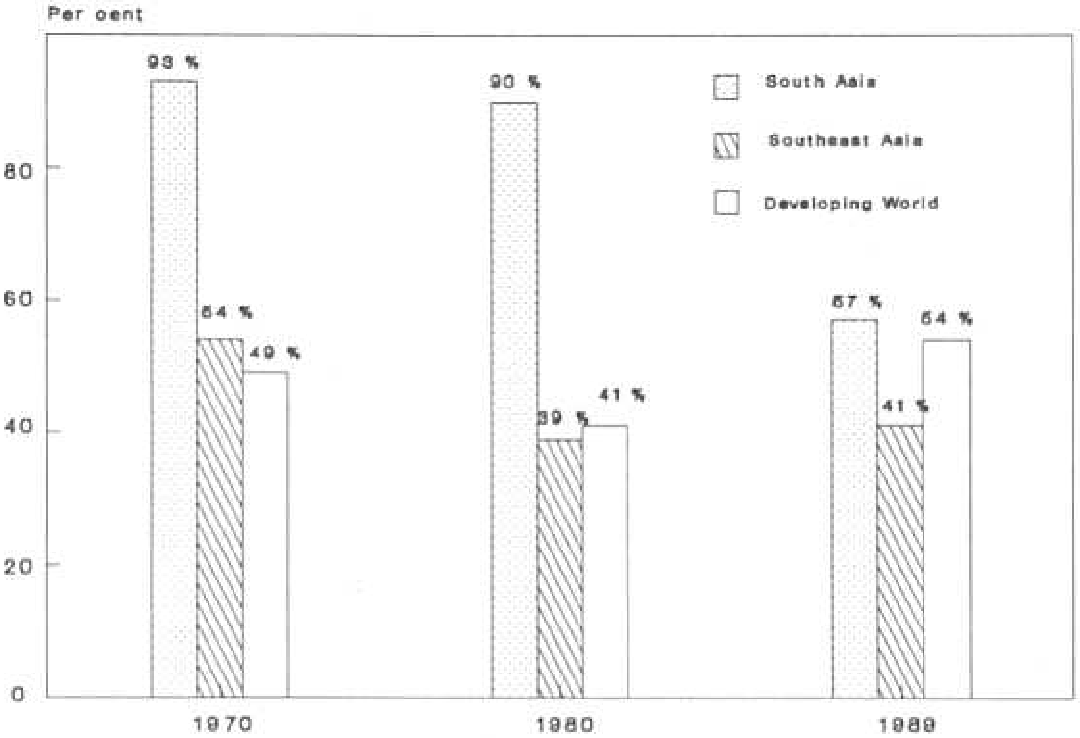
Table 3. **Regional Allocation of Net Flows to Developing Countries: 1970-1989**

	1970		1980		1985		1989	
	Amount (Mn $)	Share (%)	Amount (Mn $)	Share (%)	Amount (Mn $)	Share (%)	Amount (Mn $)	Share(%)
TOTAL NET FLOWS[a]								
Africa, South of the Sahara	1,272	12	10,907	13	8,145	14	14,469	23
East Asia and Pacific (China)	1,881 (0)	18 (0)	12,351 (1,934)	15 (2)	15,909 (5,782)	28 (10)	17,443 (8,214)	28 (13)
Europe and the Mediterranean	549	5	11,812	14	3,541	6	2,614	4
Latin America and the Caribbean	4,159	40	29,286	35	12,942	23	8,873	14
North Africa and the Middle East	1,019	10	10,785	13	8,070	14	5,394	9
South Asia (India)	1,320 (757)	13 (7)	5,764 (2,073)	7 (2)	5,753 (2,995)	10 (5)	9,255 (4,552)	15 (7)
TOTAL	10,325	100.0	82,733	100.0	56,581	100.0	63,289	100.0
LONG-TERM DEBT NET FLOWS								
Africa, South of the Sahara	816	12	7,831	13	2,572	8	5,598	25
East Asia and Pacific (China)	1,175 (0)	17 (0)	10,390 (1,927)	17 (3)	10,898 (4,006)	33 (12)	6,861 (4,500)	31 (20)
Europe and the Mediterranean	448	6	11,247	18	2,956	9	177	1
Latin America and the Caribbean	2,941	42	22,865	37	7,434	23	591	3
North Africa and the Middle East	600	9	5,560	9	4,977	15	2,431	11
South Asia (India)	1,007 (594)	14 (9)	3,216 (1,424)	5 (2)	4,015 (2,545)	12 (8)	6,612 (4,221)	30 (19)
TOTAL	6,987	100	61,109	100	32,852	100	22,270	100

[a] Total net flows include long-term debt net flows, grants and direct foreign investment (net).

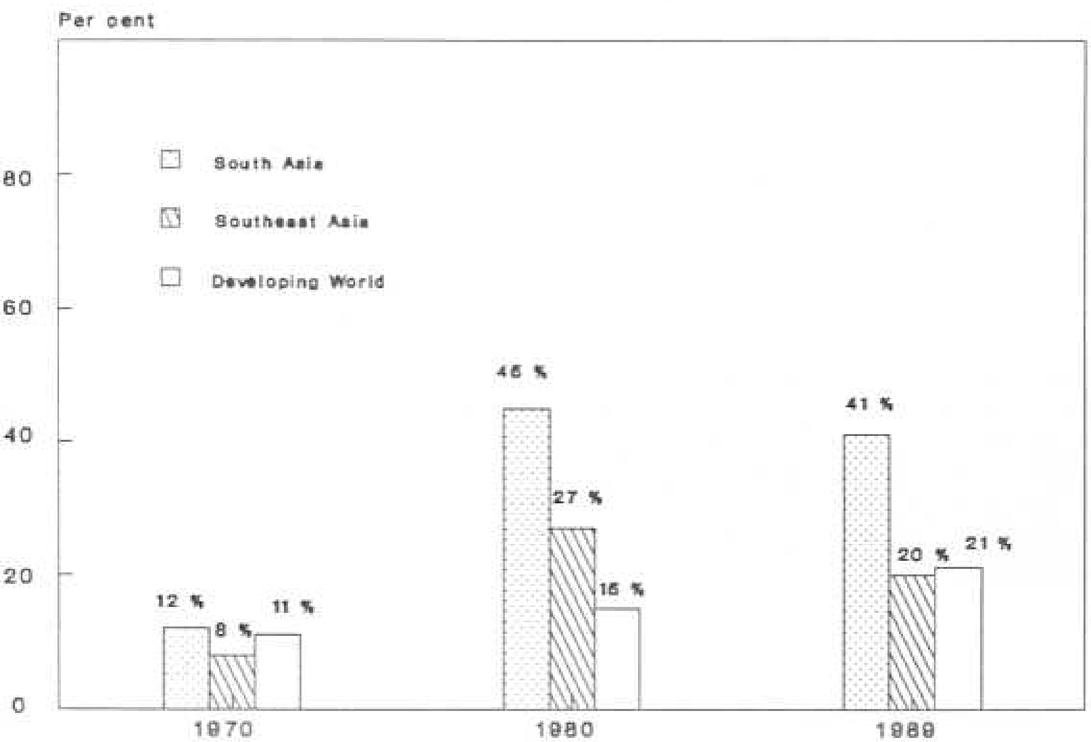
Source: World Bank, *World Debt Tables*, 1990-91 Edition (Washington, D.C., 1990).

Figure 1. Share of Official Development Assistance in Total Net Flows



Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues).

Figure 2. Share of Multilateral Flows in Total Net Flows



Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues).

34 per cent to 42 per cent during the same period (see Table 4). The share of China rose from zero to 9 per cent in the same period.

17. In the case of bilateral loans, concessional flows continue to be dominant although their share has declined significantly during the last two decades. The share of grants in total flows also fell substantially. All of these changes have caused the share of ODA in total net flows to fall in South Asia.

B. Changing Share of Multilateral Flows

18. Taking South Asian countries as a whole, both bilateral and multilateral flows have shown an increasing trend. During the period 1975-89, bilateral flows grew at an annual average rate of 9.2 per cent, while multilateral flows grew at an annual average rate of 11.5 per cent in current US dollar terms. Bilateral flows have generally been larger than multilateral flows.

19. The share of multilateral flows in total flows to South Asia rose sharply in the 1970s with a modest decline in the 1980s due to the faster rise in commercial bank borrowing. In 1989 this share was 41 per cent, which is much higher than the 12 per cent for South Asia in 1970 and 21 per cent for the developing countries as a whole in 1989 (see Figure 2).

20. Among the various sources of multilateral flows, the World Bank group (IBRD, IDA and IFC) remains the leading source. However, there has been some important changes within the multilateral flows: IDA used to be the most important form of World Bank assistance but its share fell gradually in the 1980s. On the other hand, the shares of ADB loans and nonconcessional IBRD loans showed a sharp rising trend (see Figure 3). ADB loans to South Asian countries were predominantly concessional.

C. Increasing Reliance on Japan

21. The European countries have been the largest suppliers of bilateral flows to South Asia, their share in total bilateral flows having exceeded that of the US in the latter half of the 1970s. Financial flows from Japan have shown a rapid increase, particularly since 1986, reflecting the appreciation of Japanese yen following the Plaza Accord. As a single country, Japan has been the largest donor in South Asia since 1983. It is also interesting to note that when compared with the situation in Southeast Asian countries, the share of Japan in total bilateral flows has been much lower in South Asian countries (see Figure 4).

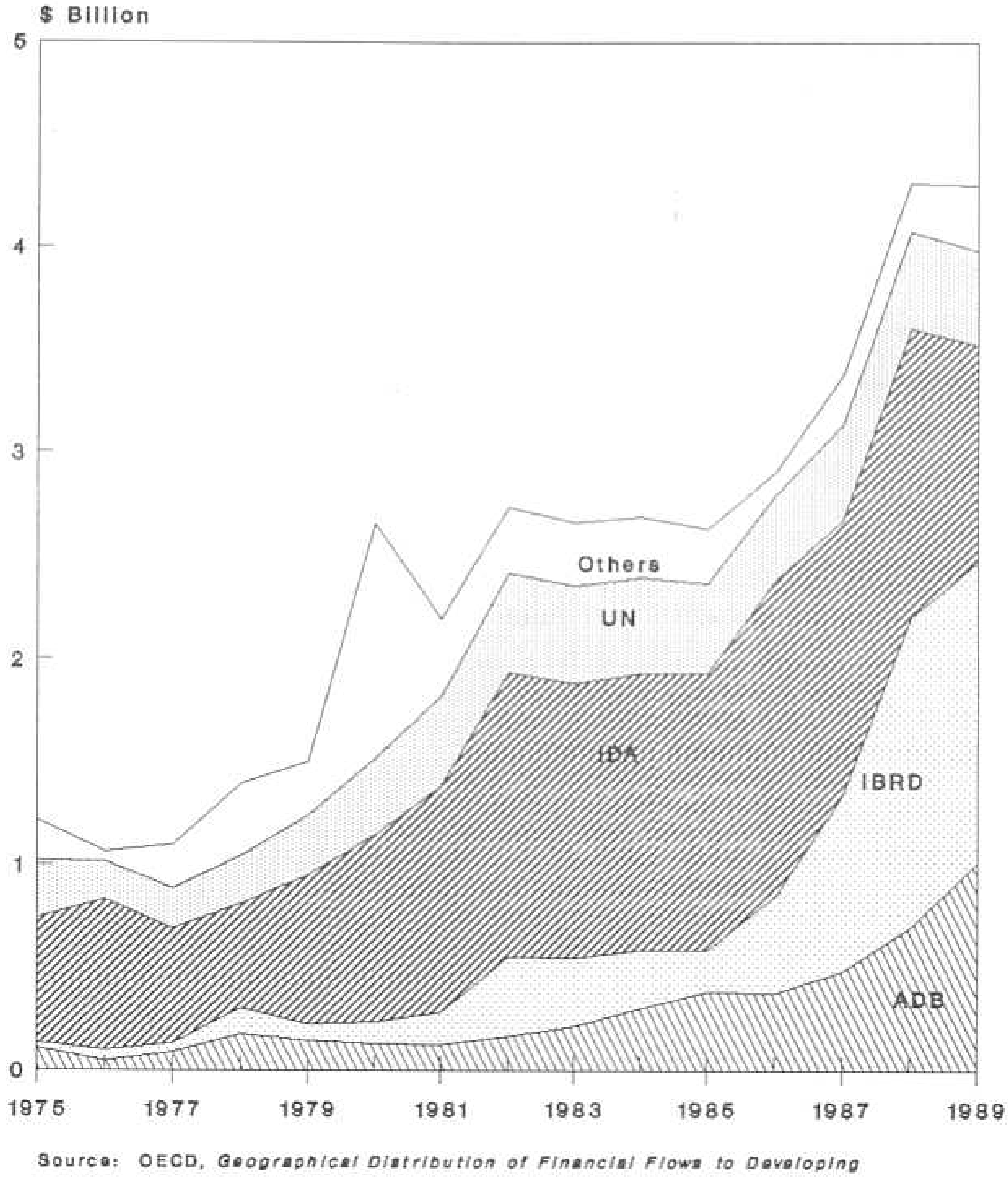
Table 4. Regional Allocation of Concessional Multilateral Assistance
(In billion US dollars)

	1970		1980		1985		1989	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Africa, South of the Sahara	74	20	882	34	1,190	30	2,202	42
East Asia and Pacific	27	7	88	3	309	8	665	13
(China)	(0)	(0)	(0)	(0)	(229)	(6)	(493)	(9)
Europe and the Mediterranean	18	5	8	0	43	1	123	2
Latin America and the Caribbean	163	45	338	13	251	6	215	4
North Africa and the Middle East	10	3	179	7	206	5	372	7
South Asia	69	19	1,126	43	1,966	50	1,696	32
(India)	(53)	(15)	(668)	(25)	(1,011)	(25)	(455)	(9)
TOTAL	361	100	2,621	100	3,965	100	5,273	100

Note: The share in the table shows the percentage share of concessional multilateral assistance to each region in total concessional multilateral assistance.

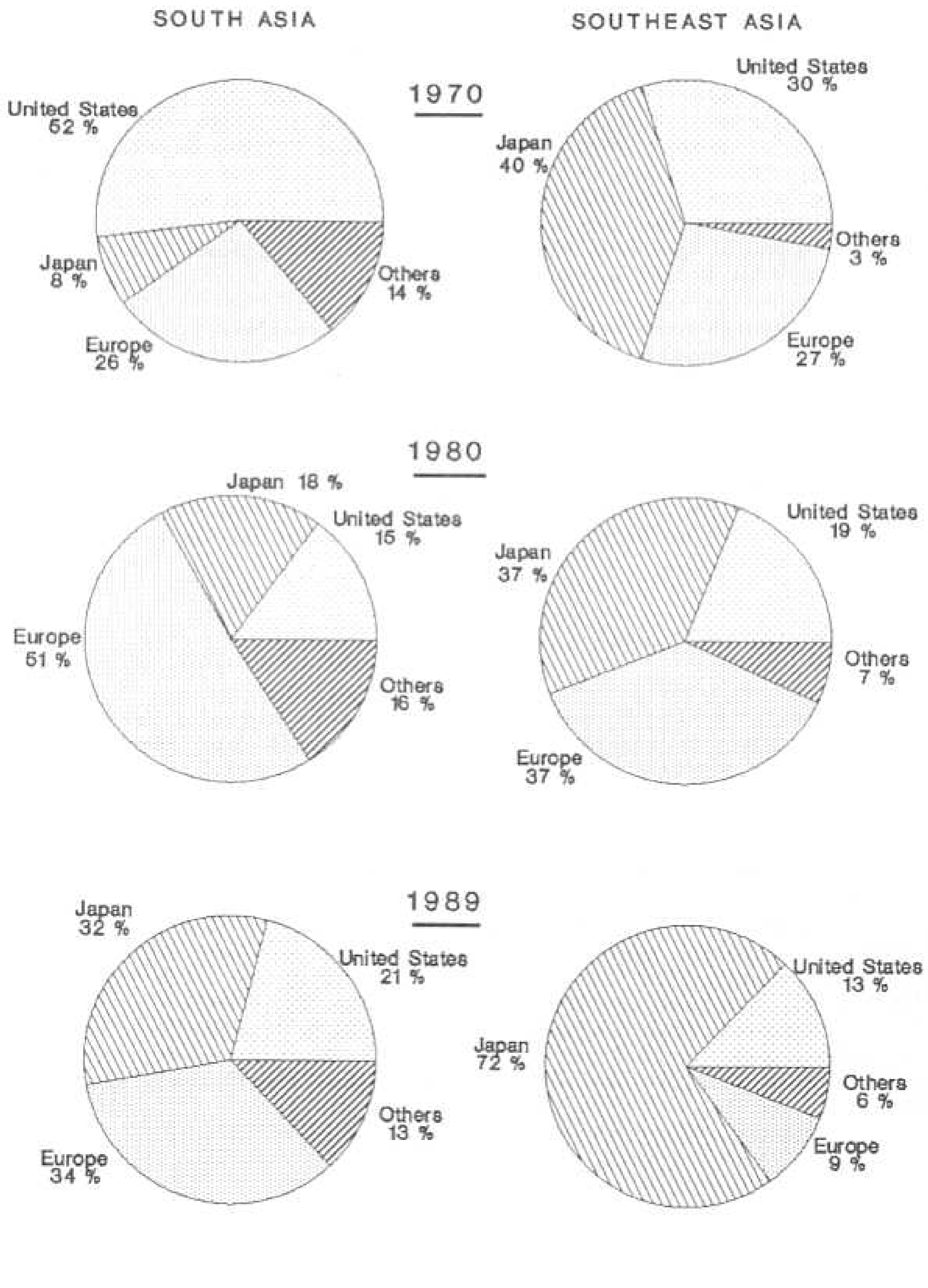
Source: World Bank, *World Debt Tables*, 1990-91 Edition (1990).

Figure 3. Multilateral Flows to South Asia: 1975-1989



Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues).

Figure 4. Shares of Major Donor Countries in Total Bilateral Flows



Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues).

D. Increasing Share of Private Flows

22. The share of private flows to South Asia has increased sharply in recent years to reach 24 per cent of total net flows in 1989. This share is, however, still lower than that for Southeast Asian countries and the average for the developing world (see Figure 5).

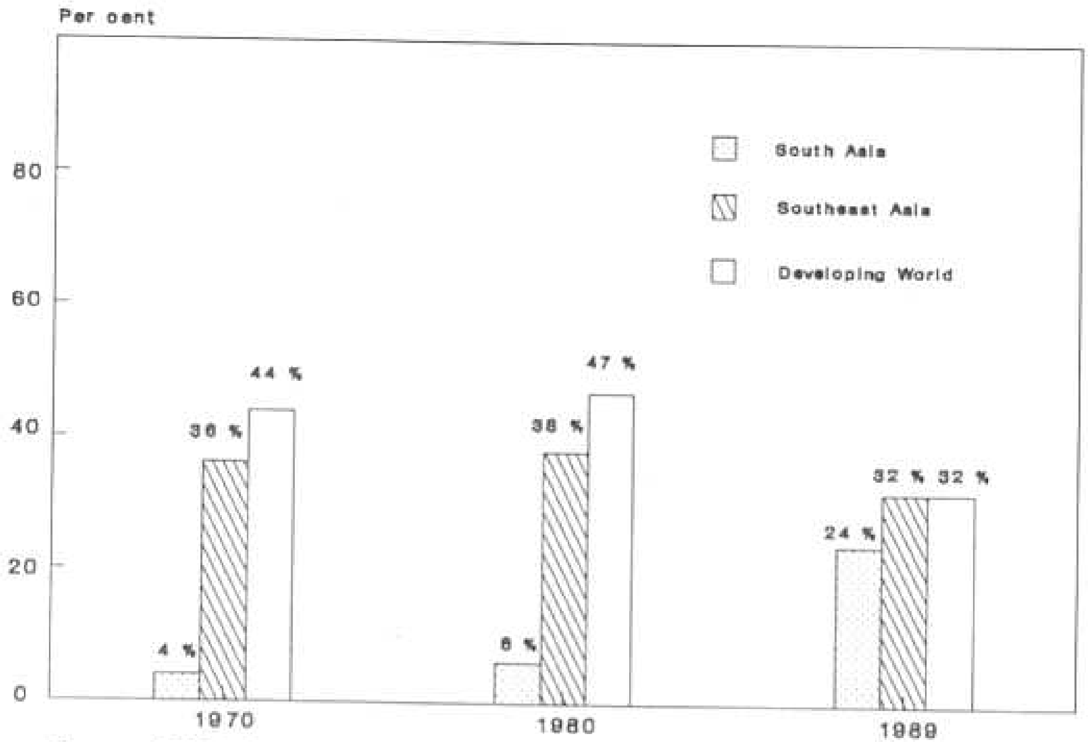
23. The main source of private flows has been international commercial banks. The rise in private flows reflects the respective governments' policy of increased borrowing from private lenders in order to finance modernization and higher growth. This trend was pronounced in India and Pakistan. In mid-1990, Bangladesh also adopted this strategy, making its first long-term borrowing from external commercial sources. However, adverse external developments in 1990 slowed the growth of private debt in these countries.

24. Foreign direct investment generally remained insignificant in South Asia, accounting for less than 3 per cent of total net flows. It should, however, be noted that in recent years foreign direct investment has shown a rising trend in some South Asian countries reflecting the improvement in the investment environment and shifting comparative advantage in developing Asia. Total foreign direct investment to South Asia during 1985-1989 was $810 million, which is equivalent to only one-fifth of the amount registered in Southeast Asia. Borrowing through the issuance of bonds has became increasingly important in the latter half of 1980s (see Table 5).

E. Rising External Debt

25. As a result of the continued inflow of external finance and its changing pattern as described above, the external debt outstanding of South Asian countries rose rapidly and their external debt situation deteriorated substantially. The external debt outstanding of South Asian countries as a whole rose from $38 billion at the end of 1980 to $102 billion at the end of 1989 (see Table 6). About 77 per cent of the increase was attributable to India, while about 13 per cent to Pakistan. As a proportion of GDP, external debt of South Asian countries rose from 17.3 per cent in 1980 to 29.4 per cent in 1989, while as a proportion of exports of goods and services, it rose from 160 per cent to 272 per cent during the same period. Debt service ratio rose from 11.6 per cent in 1980 to 24.7 per cent in 1989. Reflecting the sharp rise in commercial loans, the share of concessional debt in long-term debt declined from 84.9 per cent in 1980 to 60.7 per cent in 1989. External debt situation in South Asian countries, therefore, deteriorated significantly during the 1980s.

Figure 5. Share of Private Flows in Total Net Flows



Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues).

Table 5. Private Flows to South Asian Countries
(In million US dollars)

		1970	1980	1989
OECD Data	Direct Investment	49	121	199
	Portfolio Investment	-24	-15	1150
	Export Credit	28	267	1160
	Total	53	374	2509
World Bank Data	Bonds	-3	0	678
	Commercial Banks	4	446	895
	Direct Investment	29	106	214
	Others	17	339	-39
	Total	47	891	1748

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues); and World Bank, *World Debt Tables*, 1990-91 Edition (1990).

Table 6. **External Debt Situation in South Asian Countries: 1980-1989**

	1980	1985	1989
External Debt Outstanding ($ billion)	38.1	68.1	102.4
Ratio of Debt Outstanding to GNP (%)	17.3	24.8	29.4
Ratio of Debt Outstanding to Exports of Goods and Services (%)	159.9	265.3	272.3
Debt Service Ratio (%)	11.6	22.6	24.7
Share of concessional Debt in Long-term Debt (%)	84.9	70.6	60.7

Source: World Bank, *World Debt Tables*, 1990-91 Edition (1990).

III. EXTERNAL FINANCE IN INDIVIDUAL SOUTH ASIAN COUNTRIES

26. The pattern of financial flows is somewhat different among individual South Asian countries. This section analyzes the characteristic pattern of external finance in individual countries in South Asia.[1/]

A. Bangladesh

27. A characteristic of the Bangladesh economy is the low level of saving and investment. During the last two decades, the domestic saving rate was around 2 -3 per cent, an extremely low level. On the other hand, the domestic investment rate was about 7 per cent in the 1970s and 11 per cent in the 1980s. This implies that the resource gap as a percentage of

---

1/ More detailed data on financial flows to South Asian countries can be found in appendix tables.

GDP rose from about 5 per cent in the 1970s to about 8 per cent in the 1980s. Some of this gap was met by an increase in private transfers including workers' remittances, but much of the gap was met by foreign capital inflows.

28. Foreign capital inflows to Bangladesh rose at an average rate of 13.1 per cent a year during the period 1972-1989. In current US dollar terms, total net flows were $1.8 billion in 1989, or 8.9 per cent of GDP. Almost all capital flows were ODA, while nonconcessional flows were negligible. Bilateral flows from DAC (Development Assistance Committee) countries were dominant particularly in the 1980s, but the multilateral flows are becoming increasingly important. The share of multilateral loans in total flows was 28 per cent in 1980, but rose to 47 per cent in 1989. IDA used to be the largest multilateral donor until 1988, while the share of the ADB became higher in 1989.

29. Assistance from the US has declined in recent years. In contrast, assistance from other DAC countries and from Japan has been increasing. In 1989 the share of Japan and Europe in total bilateral flows were 38 per cent and 40 per cent respectively, while that of the US was 14 per cent.

30. Private flows have been negligible. The country has limited access to long-term private bank finance. In fact, the syndicated credit arranged by the fertilizer manufacturer KAFCO through Citibank in 1990 is considered a financial landmark, as it was the first long-term loan to a non-government entity.[1/] Foreign direct investment (FDI) is very low at only $1 million in 1989. The government is taking steps to encourage foreign direct investment. Much of the FDI has been in the textile industry with a substantial input from the NIEs rather than from OECD sources. Net export credits have fluctuated widely at a relatively low level.

31. Reflecting the pattern of external finance to Bangladesh, almost all external debt in Bangladesh was from official creditors and most of them were borrowed on concessional terms. Still, the external debt situation in Bangladesh deteriorated substantially in the 1980s. Its debt/export ratio (438 per cent in 1989) was relatively high compared with those of other APDEs. Its debt service ratio was, however, not particularly high as about 98 per cent of the country's debt was committed on concessional terms.

1/ Asian Development Bank, "Regional Study on Resources Flows and Financial Intermediation," Draft Report (Manila, 1991).

Table 7. **Net Financial Flows to Bangladesh: 1971-1989**
(In million US dollars)

1. Classification by Types

	1971		1980	1985	1989	
	Amount	Share (%)			Amount	Share (%)
Official Development Assistance	15	100.0	1,282	1,152	1,802	99.7
Bilateral	..	..	900	632	958	53.0
Multilateral	..	..	362	520	844	46.7
Other Official Flows	..	..	-9	-15	16	0.9
Net Private Flows	..	..	6	-17	-10	-0.6
TOTAL	15	100.0	1,259	1,120	1,807	100.0

2. Classification by Suppliers

	1971		1980	1985	1989	
	Amount	Share[a] (%)			Amount	Share[a] (%)
Bilateral Flows	9	61.0	909	609	968	53.5
Japan	..	(..)	221	124	372	(38.4)
United States	..	(..)	174	159	138	(14.3)
Europe	8	(88.9)	393	251	387	(40.0)
Others	1	(11.1)	121	75	71	(7.3)
Multilateral Flows	6	39.0	351	512	840	46.5
ADB	..	(..)	58	143	317	(37.7)
IBRD	..	(..)	..	-1	-2	(-0.2)
IDA	..	(..)	156	273	288	(34.3)
UN	..	(..)	62	78	119	(14.2)
Others	6	(100.0)	75	18	118	(14.0)
TOTAL	15	100.0	1,259	1,120	1,807	100.0

[a] Figures in parentheses imply shares in subtotal.

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues); and World Bank, *World Debt Tables*, 1990-91 Edition (1990).

B. India

32. India has maintained the highest domestic saving rate among the South Asian countries in the last two decades. Therefore, historically, India's reliance on external finance has been low. However, in recent years, a sharp drop in public sector saving, which was caused by a rise in government expenditures and stagnant government revenues, has led to a widening of the saving-investment gap. This has had to be financed by foreign resources. India's increasing reliance on foreign capital was facilitated by the availability of commercial loans in the international capital market.

33. Total net flows of foreign capital to India were $1.2 billion (1.1 per cent of GDP) in 1979 and quadrupled to $5.1 billion (2.2 per cent of GDP) in 1989. India received the second largest amount of foreign capital flows among APDEs in 1989, next to the People's Republic of China ($5.7 billion).

34. The changing pattern of financial flows to India is characterized by a decline in the share of concessional flows and a hardening of borrowing terms. ODA has been the main source of financial flows, but nonconcessional official loans and net private flows have been rising rapidly. In 1980 the share of ODA in total flows was 90 per cent, but declined to 37 per cent in 1989. The share of official grants also fell from 33 per cent in 1980 to 22 per cent in 1989. In the same year nonconcessional official flows accounted for about one third of total flows.

35. There have also been some changes in the relative importance of donors. The share of the US in total bilateral flows fell, while that of Japan rose sharply, particularly in the second half of the 1980s. European countries have been the most important bilateral donors, accounting for about 51.1 per cent of total bilateral flows.

36. Among multilateral flows, the most important source used to be IDA. IDA assistance to India has been of special significance in the context of the country's development efforts. Through the 1960s and the 1970s, India received the bulk of IDA assistance. In the 1980s, however, there has been a consistent decline, partly because regional allocations have been changing in favor of Sub-Saharan Africa and partly because of the entry of China as a borrower of IDA resources. The overall size of IDA flows to India has been contracting: as a result, since 1986, the share of nonconcessional IBRD loans has become larger than that of IDA. In 1989, the share of IDA loan disbursements in total World Bank loan disbursements was 30 per cent compared to 85 per cent in 1979. This trend was partly responsible for the higher average cost of foreign capital for India. The ADB started lending operations in India only in 1986. Therefore, net disbursements of loans are still quite low.

37. The share of bilateral flows has been generally higher than that of multilateral flows. Bilateral flows rose further in the 1980s as private flows (they are included under bilateral flows) showed a rapid

increase. This pattern, however, does not apply to ODA. Multilateral ODA was lower than bilateral ODA in the 1970s, but relative size of their shares reversed in the 1980s.

38. In 1984 India began to borrow actively from the international capital market to finance its large current account deficits. Starting initially with conventional syndicated loans, India has recently begun to raise funds in the international bond market. In contrast to the fact that private flows have been falling in many other developing countries, private sector bank and bond financing have generally been rising in India.

39. Commercial borrowings, however, fell considerably in 1990, reflecting both the increased difficulty being faced by India in obtaining commercial loans (India's creditworthiness was downgraded by credit rating agencies three times in 1990-1991) and the unwillingness of the Government to continue to incur large amounts of commercial debt.

40. Foreign direct investment showed an increasing trend in the 1980s in response to the improved economic situation and the Government's liberalization measures. It is, however, still quite modest at less than 5 per cent of total flows. In 1989, FDI flows was less than $200 million in India compared to $1.1 billion for China and $3.6 billion for the four Southeast Asian countries combined. One of the major criticisms of FDI in India has been that the related capital imports have not been for "state of art" technologies and, therefore, the impact on technological development has been minimal. However, this view has been reconsidered in view of its success in other developing countries. The Government has in the past few years rationalized various procedural and related matters to encourage the inflow of foreign direct investment. These measures, however, have not been very effective. Recently, the Indian Government announced that the Foreign Exchange Regulation Act would be amended to allow FDI of up to 51 per cent of the total capital of invested corporations in a large number of industries, compared with 40 per cent presently. This together with other changes, including the substantial liberalization in industry and trade policies, are expected to have a favorable impact on FDI.

41. Loans from the IMF are not included in OECD data on financial flows. In the early 1980s an IMF loan of $4.5 billion was provided to support economic reforms and is now being repaid. Another source of foreign exchange not covered in the OECD data are inflows from non-resident Indians (NRIs). This has averaged about $1.4 billion during the last 5 years, although it seems to have stagnated since 1985/86. Much of the rise in deposits in recent years represents reinvestment of interest.

42. The changing pattern of external finance to India caused a sharp rise in its external debt outstanding. India is now the largest debtor in Asia and its debt outstanding reached $62.5 billion at the end of 1989. Furthermore, the share of concessional debt in total long-term debt declined substantially from 82.9 per cent in 1980 to 45.7 per cent in 1989.

Table 8. **Net Financial Flows to India: 1970-1989**
(In million US dollars)

1. Classification by Types

	1970		1980	1985	1989	
	Amount	Share (%)			Amount	Share (%)
Official Development Assistance	825	98.4	2,127	1,592	1,906	37.2
Bilateral	..	..	605	544	1,139	15.0
Multilateral	..	..	1,522	1,048	768	22.2
Other Official Flows	-5	-0.6	132	280	1,513	29.6
Net Private Flows	19	2.3	129	635	1,701	33.2
TOTAL	839	100.0	2,388	2,507	5,120	100.0

2. Classification by Suppliers

	1970		1980	1985	1989	
	Amount	Share[a] (%)			Amount	Share[a] (%)
Bilateral Flows	765	91.2	777	1,273	3,136	61.2
Japan	38	(4.9)	38	68	1,097	(34.9)
United States	422	(55.2)	170	130	174	(5.5)
Europe	197	(25.8)	565	992	1,325	(42.2)
Others	108	(14.1)	4	84	540	(17.4)
Multilateral Flows	74	8.8	1,611	1,234	1,984	38.8
ADB	..	(..)	..	..	82	(4.1)
IBRD	-4	-(5.4)	117	170	1,114	(56.2)
IDA	46	(62.1)	609	820	473	(23.8)
UN	23	(31.0)	106	104	147	(7.4)
Others	10	(13.5)	779	140	169	(8.5)
TOTAL	839	100.0	2,388	2,507	5,120	100.0

[a] Figures in parentheses imply shares in subtotal.

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues); and World Bank, *World Debt Tables*, 1990-91 Edition (1990).

C. Myanmar

43. Both the domestic saving rate and investment rate in Myanmar have been fairly low: the former averaging 12.4 per cent and the latter 15.6 per cent during the 1980s. The resource gap was about 3 per cent of GDP during the same period.

44. Total net flows peaked in 1979 at $518 million (10.5 per cent of GDP) and fluctuated in the 1980s at much lower levels. In 1989 total net flows fell sharply to $91 million from $473 million in the previous year.

45. Bilateral flows have been the main source of foreign capital inflows accounting for 69.1 per cent of total net flows during the 1980s. Japan and the European countries are major donor countries. Since 1984 Japan supplied more than half of total bilateral flows. The share of the US has been negligible. Multilateral flows accounted for about 30.8 per cent of total net flows during the 1980s. IDA, ADB and the UN have been important suppliers of multilateral flows. All multilateral flows have been on concessional terms.

46. Official flows have been dominant, while private flows have been negligible except for the period 1978-1982 when export credits played an important role. Almost all official flows have been on concessional terms. The Foreign Investment Law passed in 1988 had attracted some projects. More than 90 per cent of the investment inflows so far have been for the extractive industries, i.e., oil and gas exploration and mining.

47. Total external debt stood at $4.2 billion at the end of 1989, 90 per cent of which was concessional. Of the concessional debt, three quarters is owed to bilateral donors and one quarter to multilateral institutions. The debt-service ratio has been quite high during the period 1985-1987 due to sluggish exports and bunching of principal repayments. The ratio has declined substantially since then. However, the ratio of external debt to exports of goods and services at 644 per cent in 1989 was the highest among South Asian countries.

D. Nepal

48. Nepal, being one of the lowest income countries in the world, relied heavily on concessional foreign capital inflows to finance its investment. The domestic saving rate in Nepal remains very low, less than 10 per cent, while its investment rate is fairly high, at about 20 per cent. This implied a heavy reliance on external finance. The resource gap as a percentage of GDP was around 10 per cent, which has shown an increasing tendency in recent years as the domestic saving rate has declined even further.

Table 9. **Net Financial Flows to Myanmar: 1970-1989**
(In million US dollars)

1. Classification by Types

	1970		1980	1985	1989	
	Amount	Share (%)			Amount	Share (%)
Official Development Assistance	23	77.2	309	356	184	202.6
Bilateral	..	..	231	253	90	99.1
Multilateral	..	..	77	103	94	103.5
Other Official Flows	-2	-5.0	6	0	-67	-73.8
Net Private Flows	8	27.9	89	-35	-26	-28.9
TOTAL	30	100.0	403	321	91	100.0

2. Classification by Suppliers

	1970		1980	1985	1989	
	Amount	Share (%)			Amount	Share (%)
Bilateral Flows	30	100.0	325	219	-3	-3.1
Japan	14	48.3	144	142	71	78.7
United States	2	6.7	..	8	2	2.2
Europe	11	36.6	157	60	-81	-88.9
Others	3	8.4	23	9	4	4.9
Multilateral Flows	0	0.0	78	102	94	103.1
ADB	..	..	14	32	25	27.5
IBRD	-2.5	-8.4	..	..	..	..
IDA	..	..	26	43	52	57.3
UN	2.5	8.4	17	24	17	18.9
Others	..	...	21	3	-1	-0.6
TOTAL	30	100.0	403	321	91	100.0

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues); and World Bank, *World Debt Tables*, 1990-91 Edition (1990).

49. Total net flows to Nepal in 1989 was about $500 million, 17.8 per cent of GDP. The amount has risen more than three times in current US dollar terms during the last decade.

50. Almost all financial flows to Nepal are ODA grants or loans. One characteristic of financial flows to Nepal is the declining share of grants in ODA, which fell from 79.1 per cent in 1980 to 55.2 per cent in 1989. Private flows showed some increase in the last five years, but the amount is still negligible. The major type of private flows was export credit, while foreign direct investment was quite small.

51. There has not been a significant change in the composition of donor countries. European countries have been most important, accounting for about 40 per cent of total bilateral flows in 1989, while Japan and the US supplied 30 per cent and 5 per cent, respectively. Among the multilateral institutions, the share of IDA has been the highest, while the share of ADB has been rising. The United Nations also extended substantial financial support to Nepal.

52. One of the significant trends in foreign assistance has been a shift towards agriculture and away from transport, reflecting rising expenditures on irrigation projects and a slowdown of expenditures on transport infrastructure. Aid disbursements in the social sectors have been very low.

53. Reflecting the increasing reliance on foreign borrowing in recent years, the external debt outstanding of Nepal expanded substantially. Although the level of external debt in 1989 as a proportion of both GNP and exports is not particularly high, its growth rate during the 1980s was the highest among South Asian countries. More than 90 per cent of long-term debt of Nepal was on concessional terms.

E. Pakistan

54. The average domestic saving rate in Pakistan during the past two decades was about 10 per cent, which is relatively low compared with that of other Asian developing countries. Despite the low domestic saving rate, the investment rate remained at about 17 per cent during the same period. The resource gap therefore remained high, at more than 5 per cent of GDP and foreign capital inflows to Pakistan constituted an important source of investment. The rise in the domestic saving rate in recent years to 12-13 per cent has not helped in reducing the gap because the investment rate rose concomitantly. A part of the resource gap was financed by workers' remittances, but the ratio of the current account deficit to GDP continued to be high at more than 4 per cent. Foreign capital has also been important in financing the budgetary deficit of the Government. During the Sixth Plan period (1983-84 to 1987-88), foreign capital inflows financed an average of 19 per cent of the overall budget deficit. This share has increased in recent years, registering 32 per cent in 1988-89.

Table 10. **Net Financial Flows to Nepal: 1970-1989**
(In million US dollars)

1. Classification by Types

	1970 Amount	1970 Share (%)	1980	1985	1989 Amount	1989 Share (%)
Official Development Assistance	24	100.0	163	236	493	99.5
Bilateral	..	..	91	122	251	50.7
Multilateral	..	..	72	114	242	48.8
Other Official Flows	..	..	..	4	2	0.4
Net Private Flows			-1	7	1	0.1
TOTAL	24	100.0	161	246	496	100.0

2. Classification by Suppliers

	1970 Amount	1970 Share[a] (%)	1980	1985	1989 Amount	1989 Share[a] (%)
Bilateral Flows	20	86.0	90	130	253	51.0
Japan	..	..	23	52	77	(30.4)
United States	17	(85.0)	8	21	14	(5.5)
Europe	2	(10.0)	45	49	103	(40.7)
Others	1	(5.0)	13	8	59	(23.3)
Multilateral Flows	3	14.0	72	117	243	49.0
ADB	..	(..)	9	42	83	(34.1)
IBRD	..	(..)	..	..	..	..
IDA	..	(..)	25	33	107	(44.1)
UN	3	(100.0)	33	32	37	(15.2)
Others	..	..	5	10	16	(6.6)
TOTAL	24	100.0	161	246	496	100.0

[a] Figures in parentheses imply shares in subtotal.

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues); and World Bank, *World Debt Tables*, 1990-91 Edition (1990).

55. Annual net disbursements of foreign capital to Pakistan rose substantially during the period 1979-1989, from $ 0.6 billion (3.3 per cent of GDP) in 1979 to $2.3 billion (6.4 per cent of GDP) in 1989. These figures do not include inflows from IMF and workers' remittances, the latter of which peaked in 1982-83 at $2.9 billion and fell to $1.9 billion in 1988-89.

56. Official flows accounted for 71.8 per cent of total flows in 1989, while the rest were private flows. The majority of official flows were ODA, i.e.,either grants or concessional loans. The share of grants in total ODA has been higher than the share of loans since 1980, but the situation is likely to be reversed in the future in view of the declining grants from the US. The share of non-concessional official flows has been rising rapidly, particularly since 1987. The main source of non-concessional official flows was multilateral institutions.

57. Private flows accounted for 28 per cent of total net flows in 1989. According to OECD data, portfolio investment and export credit have been the major types of private flows. In contrast, according to the World Bank data, foreign direct investment has been the leading source. Bond borrowing is not common in Pakistan, although the National Development Finance Corporation floated a seven year bond in 1987. In recent years, short-term borrowings rose sharply because of pressures on the balance of payments.

58. Bilateral flows have been dominant, but have fluctuated widely. Unlike in other South Asian countries where Japan is the most important single donor country, in Pakistan the US has been the largest donor, followed by Japan and the European countries. This reflects the tendency of the US to concentrate its ODA based on political concerns and its view that Pakistan is a key regional strategic link. OPEC countries were important donors only in a few selected years.

59. Multilateral flows have continued to rise, particularly during the period 1986-1988. However, compared with other South Asian countries, reliance on IDA is much lower. The share of IDA in total World Bank loans to Pakistan was only 21.2 per cent in 1989. The ADB has been an important multilateral source, providing about 43.1 per cent of multilateral flows in 1989. Financial support from UN is also important, accounting for 11.9 per cent of multilateral flows in 1989. Official assistance to Pakistan has accumulated in the aid pipeline primarily due to the lack of local currency matching funds and problems with project implementation.

60. Foreign capital flows to Pakistan were mainly grant aid and ODA loans. As a result, about 76 per cent of its long-term debt was on concessional terms. The debt situation of Pakistan continued to deteriorate in the 1980s, with a little improvement in recent years. Compared with the other South Asian countries, Pakistan depends more on short-term debt. In 1989, the share of short-term debt in total debt was 15 per cent, which was the highest among the South Asian countries.

Table 11. **Net Financial Flows to Pakistan: 1970-1989**
(In million US dollars)

1. Classification by Types

	1970		1980	1985	1989	
	Amount	Share (%)			Amount	Share (%)
Official Development Assistance	421	85.1	1,040	802	1,103	47.9
Bilateral	..	..	622	412	665	28.8
Multilateral	..	..	418	390	439	19.0
Other Official Flows	50	10.2	72	176	551	23.9
Net Private Flows	23	4.7	114	-49	651	28.2
TOTAL	495	100.0	1,226	929	2,305	100.0

2. Classification by Suppliers

	1970		1980	1985	1989	
	Amount	Share[a] (%)			Amount	Share[a] (%)
Bilateral Flows	408	82.6	776	417	1,318	57.2
Japan	48	(11.8)	109	93	179	(13.6)
United States	215	(52.7)	62	162	937	(71.1)
Europe	94	(23.0)	288	87	49	(3.7)
Others	51	(12.5)	316	75	154	(11.6)
Multilateral Flows	86	17.4	450	512	987	42.8
ADB	5	(5.8)	46	138	425	(43.1)
IBRD	44	(51.2)	-10	29	344	(34.9)
IDA	23	(26.7)	70	100	90	(9.1)
UN	9	(10.5)	131	173	117	(11.8)
Others	5	(5.8)	213	72	11	(1.1)
TOTAL	495	100.0	1,226	929	2,305	100.0

[a] Figures in parentheses imply shares in subtotal.

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues); and World Bank, *World Debt Tables*, 1990-91 Edition (1990).

F. **Sri Lanka**

61. The domestic saving rate in Sri Lanka has averaged about 13 per cent during the last two decades. It has shown a slightly declining trend in the second half of 1980s due to weak economic performance caused by civil unrest and a prolonged drought. As domestic resource mobilization has been limited, official aid and loans have played a major part in Sri Lanka's development. Foreign capital has been necessary to support the relatively high investment rate in Sri Lanka. The average domestic investment rate was 19 per cent in the 1970s and rose to about 25 per cent in the 1980s. This meant a large resource gap in terms of GDP. The resource gap was particularly high in the early 1980s, exceeding 10 per cent of GDP. This gap declined somewhat in the second half of the 1980s as public investment declined as a consequence of a deliberate policy to reduce the level of government expenditures. However, it is still much higher than in other Asian developing countries.

62. Reflecting the large resource gap, the external current account deficit as a percentage of GDP remained high. The current account deficit was financed by foreign capital inflows or changes in foreign exchange reserves. Foreign capital inflows showed a rising trend particularly over the period 1978- 1984. They then showed a declining or stagnant tendency until 1989 when there was a rapid increase. In 1989, total net foreign capital inflows amounted to $743 million, 10.7 per cent of GDP. Net inflows of foreign capital continued to rise in 1990 due to an increase in aid. Loans negotiated with the US, Japan and various multilateral agencies also contributed to the rise.

63. ODA was the main source of financial flows, accounting for 88.3 per cent of total flows during the 1980s. The share of ODA grants was almost equal to that of ODA loans. Nonconcessional official flows have been negligible.

64. Private flows showed fluctuations at a low level: an increasing trend in the early 1980s was followed by a negative or negligible net inflow in 1986-1988. The most important sources of private flows have been export credits, followed by FDI. Export credits fluctuated significantly in the 1980s, with a sharp rise in 1989. FDI reached a peak in 1984 and then has not recovered to that level since. At its peak ($71 million in 1984), FDI was 11.1 per cent of total net flows, but for the 1980s as a whole it accounted for only 2.3 per cent of total flows. Asian NIEs and Japan have been the major source countries of FDI flows in recent years. There have been essentially no inflows of foreign capital through bonds and equity markets. However, in 1990 there were some improvements in the regulations on foreign purchases of equity, which is yielding a positive impact on foreign equity investment in Sri Lanka.

65. Bilateral flows have been much more important than multilateral flows to Sri Lanka. European countries have been the major donor countries. Japan became the most important donor during 1986-1988, but net flows from European countries rose sharply in 1989 to exceed those

Table 12. **Net Financial Flows to Sri Lanka: 1970-1989**
(In million US dollars)

1. Classification by Types

	1970		1980	1985	1989	
	Amount	Share (%)			Amount	Share (%)
Official Development Assistance	49.1	83.1	393	485	546	73.4
Bilateral	..	..	305	340	395	47.4
Multilateral	..	..	87.5	145	151	26.0
Other Official Flows	8	13.0	4	18	4	0.5
Net Private Flows	2	3.9	38	81	193	26.0
TOTAL	59.1	100.0	434	584	743	100.0

2. Classification by Suppliers

	1970		1980	1985	1989	
	Amount	Share[a] (%)			Amount	Share[a] (%)
Bilateral Flows	52	88.7	344	438	588	79.1
Japan	5	(9.6)	46	123	185	(31.5)
United States	10	(19.2)	55	86	40	(6.8)
Europe	29	(55.7)	200	200	315	(53.6)
Others	9	(17.3)	43	29	47	(8.0)
Multilateral Flows	7	11.3	89	146	155	20.9
ADB	2	(28.6)	5	28	76	(49.0)
IBRD	-1	(-14.3)	-2	1	1	(0.6)
IDA	1	(14.3)	20	73	51	(33.0)
UN	4	(57.1)	20	21	18	(11.6)
Others	1	(14.3)	47	23	8	(5.2)
TOTAL	59	100.0	434	584	743	100.0

[a] Figures in parentheses imply shares in subtotal.

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues); and World Bank, *World Debt Tables*, 1990-91 Edition (1990).

from Japan. Net flows from the US showed a declining trend in the second half of 1980s. In 1989, the share of the US in total bilateral flows was less than 10 per cent.

66. Multilateral flows showed a stagnant trend in the second half of the 1980s due to civil disturbance. It accounted for 20 per cent of total net flows in 1989. IDA had been the most important multilateral source until 1987, while the ADB has become the most important source since 1988.

67. As in the case of most South Asian countries, Sri Lanka's external debt situation deteriorated significantly in the 1980s. As a result of the rapid increase in external borrowings, the debt/GNP ratio in 1989 rose to 73.3 per cent in 1989, which was the highest among South Asian countries. The debt-service ratio, however, remained at a manageable level during the 1980s.

IV. PROSPECTS

68. The prospects for foreign capital flows to South Asian countries will depend on both the supply of and the demand for external finance from a global perspective. The global supply of external finance will, in turn, depend very much on the investment-saving gap--or equivalently the balance of payments situations--in donor countries.

69. In the United States, there is a strong possibility that the federal budget deficit will be reduced, resulting in an increase in public saving and a decline in the use of foreign saving. On the other hand, Canada, France and the United Kingdom are projected to experience a rise in the use of foreign saving, partly reflecting strong growth in domestic demand (see IMF, 1991).

70. The capacity of Japan to provide assistance to developing countries is likely to decline, mainly for two reasons. First, the national saving rate in Japan is projected to decline due to a change in demographic structure. A rise in the average age of the population is expected to lower the saving rate during the 1990s. Second, the government has recognized a need for it to play a more important role in improving social infrastructure, implying that more capital will be required for domestic investment. The provision of savings to the rest of the world is therefore projected to decline.

71. Forecasts of financial flows in unified Germany are not very bright either. Germany will have to spend the bulk of its saving generated in the western part of the country to finance requirements for reconstruction in the eastern part. Therefore, there will be limited room for Germany to supply a substantial amount of capital to other countries for some years to come.

72. The above assessment generally indicates that the supply of foreign capital from the industrial countries to the developing world will not grow rapidly in the medium term. The situation will be aggravated by the changing environment in the international capital market. International commercial banks were important sources of bilateral flows in the 1980s. However, they are now reluctant to increase the supply of credit to the indebted developing countries, *inter alia*, for two reasons. First, the Bank for International Settlement (BIS) introduced a new standard in which each bank in member countries will have to keep risk-bearing assets equal to or lower than a specified level. Therefore, commercial banks will need to minimize their risk-bearing lending to the developing world in order to satisfy this requirement. Second, due to the financial difficulties experienced by commercial banks in both the US and Japan, these banks are not willing to take risks in recycling capital to developing countries which might result in big losses (see Watanabe, 1991).

73. New forms of finance are increasingly being used in the developing countries to offset the decline in commercial bank lending. They include leasing, bond issues, swap arrangements, equity issues, non-resident deposits, etc. However, the use of these new instruments will not become widespread enough to offset the reduction in commercial bank lending.

74. The supply of external finance to the developing world has come not only from the industrial countries, but also from the Middle East and NIEs. However, the capacity of the Middle East countries to supply capital to the developing world will be constrained in the 1990s since Saudi Arabia and Kuwait, which have been major exporters of capital during the last 15 years, will have to finance their own reconstruction needs. NIEs will continue to provide foreign capital to the developing world. However, since the combined current account surplus of the NIEs is projected to decline significantly in the medium term, their contribution to the supply of external finance to the developing world is likely to fall.

75. In contrast to the less than promising prospects on the global supply of external finance, the global demand for external finance is expected to be high. Potential demand for external finance will be particularly high in Eastern Europe, the Soviet Union and the Middle East. There are, however, still serious structural problems that have to be overcome before foreign capital will flow actively into the Soviet Union and Eastern European countries. Furthermore, reconstruction in Saudi Arabia and Kuwait will be financed mostly by their own accumulated foreign assets. Therefore, the actual demand for financial resources from these regions will be much less than their potential demand.

76. In the 1980s, Latin American countries experienced a sharp fall in their net flows but they will need an increasing amount of external finance to support their on-going adjustment programmes. Sub-Saharan African countries will continue to rely on external finance to tide over their difficult economic situations.

77. Among Asian developing countries, Asian NIEs will continue to be capital exporters and some Southeast Asian countries will need less external finance in the future as their balance of payments situations improve with a rise in their exports. However, demand for external finance will continue to be high in other Asian developing countries. In particular, developmental needs will be enormous in South Asian countries as will be discussed in the next section.

78. According to World Bank projections (see World Bank, World Debt Tables 1990-91 edition), official grants to the developing world will grow at an annual rate of 5 per cent in the coming five years compared with the 9 per cent increase registered in the past five years. The projections do show, however, that both official loans and private flows will grow much faster in the coming five years than in the past (see Table 13). Multilateral lending is projected to grow faster than bilateral flows, reflecting increased World Bank lending under its 1989 capital increase, the impact of the newly created European Bank for Reconstruction and Development (EBRD), the recently concluded IDA replenishment and on-going Asian Development Fund (ADF) replenishment, and the expected capital increases in some regional development banks. Private flows will grow at an annual rate of 8–10 per cent in the next 5 years compared with 1.9 per cent in the past 5 years. Commercial bank lending is likely to be limited because private lenders will remain cautious. Project and trade-linked finance, on the other hand, are projected to grow rapidly together with a number of "new" forms of finance including debt-equity swaps, leasing, bond issues and equity issues. FDI will also continue to rise at a moderate rate.

79. The above projections of the World Bank seem somewhat optimistic. Furthermore, the above global projections, even if they prove to be true, do not necessarily apply to South Asia: in particular, with respect to private flows. New forms of finance are likely to be used mainly by the upper-middle-income countries and South Asia is not likely to benefit much from them. The availability of commercial bank borrowing will depend on the creditworthiness of borrowing countries, and the recent downgrading of some South Asian countries' credit rating indicates that the prospects for commercial borrowing in South Asia are not very bright. FDI will be available to countries that can provide a good investment environment, including adequate infrastructure, macroeconomic stability, liberal investment policies and promising export potentials. How much FDI South Asian countries can attract will depend largely on their domestic economic policies. Furthermore, the opening up of Eastern European countries and planned economies in Asia will create a more competitive environment for attracting FDI.

80. Judging from the above general projections of global supply of and demand for external finance, it is likely that the share of South Asia in the total external finance to the developing world will decline. In 1989 the share for South Asia in the long-term debt net flows was 30 per cent, while that of Latin America, Europe and the Mediterranean countries combined was only 4 per cent (see Table 3 in Section II). As the demand for external finance in Latin American countries and Eastern European countries rises, the share of South Asia, East Asia and Sub-Saharan Africa is likely to be reduced.

Table 13. **Aggregate Resource Flows (Long-Term) to Developing Countries: 1985-1995**
(Growth rates: annual %)

	1985-1989	1990-1995 Base Scenario	1990-1995 High Scenario
Official grants	9.0	5.0	5.0
Official loans	-0.8	9.3	9.3
Bilateral	-1.2	8.0	8.0
Multilateral	-0.6	9.9	9.9
Private flow	1.9	7.7	9.9
Private loans	-25.9	15.0	18.0
Foreign Direct Investment	20.9	6.0	8.0
TOTAL	2.8	7.4	8.4

Source: World Bank, *World Debt Tables*, 1990-91 Edition (1990).

81. South Asian countries may not benefit from bilateral ODA as much as they did in the last two decades. Diversion of ODA from South Asian countries to Eastern Europe and the Soviet Union is not a remote possibility. This does not necessarily mean that the absolute value of official assistance will decline, but that additional increases in ODA are likely to flow more into Eastern Europe than to South Asia.

82. In the medium term, commercial bank lending is also not likely to rise rapidly in South Asia for two reasons. First, commercial banks have become hesitant in their lending activity to the developing world, partly as a result of the change in BIS regulations and partly due to their past unhappy experience with their lending to the developing world. Second, South Asian countries cannot afford much commercial loans on non-concessional terms as they would adversely affect the fiscal and balance of payment situations which are already tenuous. If commercial loans continue to flow in as they did in the 1980s, the external debt situation in some South Asian countries will deteriorate significantly.

83. The above assessment generally indicates a likely shortage of foreign capital to South Asian countries. FDI is one potential source of external finance which remains untapped. There is a strong possibility that direct investment will start to flow into South Asia if South Asian countries undertake policy reforms to make the investment environment favorable for foreign investors. The continuously shifting comparative advantage in the world economy provides an excellent opportunity for South Asian countries, which have an abundant labor force, to participate in the dynamic catching up process spreading in Asia through FDI flows. In the medium term, FDI will become an increasingly important source of external finance in South Asia.

84. Another important source of external finance is multilateral financial institutions (MFIs). However, it is projected that the major attention of the World Bank and IMF will increasingly turn to the Eastern European countries. Latin American countries are also expected to borrow more from MFIs, narrowing the room for borrowing for the South Asian countries. Furthermore, donors' contributions to EBRD could imply a reduction in their potential contribution to other MFIs, including the ADB. Therefore, the share of South Asia in multilateral lending may decline, unless ADB operations are expanded strongly to compensate for the possible slowdown in the operations of other MFIs in South Asia.

85. In the case of the ADB, the NIEs have already graduated and some Southeast Asian countries will not borrow much from the ADB because they have access to the international capital market. On the other hand, China will take an increasing share of ADB loans and other planned economies such as Viet Nam are also expected to become important borrowers. South Asian countries, however, will remain the most important borrowers of ADB's concessional, or ADF, loans in the medium term. The extent of replenishment of ADF resources will be crucial in determining the availability of concessional finance for South Asian countries.

86. Despite increasing demand for external finance in South Asia, the availability of external finance is likely to be reduced as a result of the projected slowdown in the growth of bilateral ODA and commercial loans and the projected higher competition among developing countries to get more aid. To help fill the gap between demand for and supply of external finance, there is a need for increasing the role of MFIs, and particularly that of the ADB. The next section is therefore devoted to a discussion of the development challenges facing South Asian countries and the role that the multilateral financial institutions will need to play in helping them to overcome their development constraints.

V. ROLE OF MULTILATERAL FINANCIAL INSTITUTIONS AND DEVELOPMENT CHALLENGES IN SOUTH ASIA

87. The role of multilateral financial institutions (MFIs) in financing economic development has become increasingly important during the last two decades. This trend is partly attributable to a number of advantages which are related to multilateral aid. It is generally considered that MFI loans give greater weight to developmental criteria in the allocation of resources than bilateral aid. This is because MFIs are largely free of political interests. While more than a half of bilateral aid is tied or partially tied, MFI loans are untied. This will result in the more efficient utilization of aid resources. Although donor's views are important in multilateral aid, the weight of individual donor's view is lessened through the consensus decision-making process in MFIs.

88. MFIs generally have a comprehensive, well-informed view of the overall economic and sectoral conditions in their countries of operations. As this knowledge is actively used in the selection and design of assistance programs and projects, the effectiveness of aid can be enhanced. Some MFIs can also provide vital technical assistance to their developing member countries through expert consultancy services or based on their own experience and expertise.

89. Another important advantage of MFIs is the fact that the pooling of resources augments leverage in the capital markets and widens the scope of feasible activities. MFIs can, therefore, extend loans with lower costs and longer maturity and they can also take the lead in programs which are considered too large for bilateral donors to undertake. By collaborating with private sources and other bilateral and multilateral sources, MFIs can further expand the volume of total resources. The cofinancing function of MFIs is therefore becoming increasingly important.

90. In view of the advantages of multilateral flows, more emphasis has been placed in expanding multilateral assistance during the last two decades. As a result, net resource flows from MFIs in 1989 amounted to \$18.6 billion, 21 per cent of total net flows to all developing countries. This is in contrast to 9 per cent in 1970 and 15 per cent in 1980.

Furthermore, in recent years, MFIs have significantly broadened their cofinancing operations with other official and private donors.

91. MFIs have played an increasingly important role in meeting various development challenges in South Asia during the last two decades. The share of multilateral flows in total flows rose to more than 40 per cent compared with 12 per cent in 1970 (see Figure 6). MFIs provided project and program loans as well as technical assistance to these countries. Through these activities, they have tried to stimulate economic growth in the region, alleviate poverty, and help change economic structures to fit to the changing environment. Most South Asian countries are eligible for concessional loans from multilateral institutions. Only in the case of the ADB, India is not eligible for concessional ADF loans.

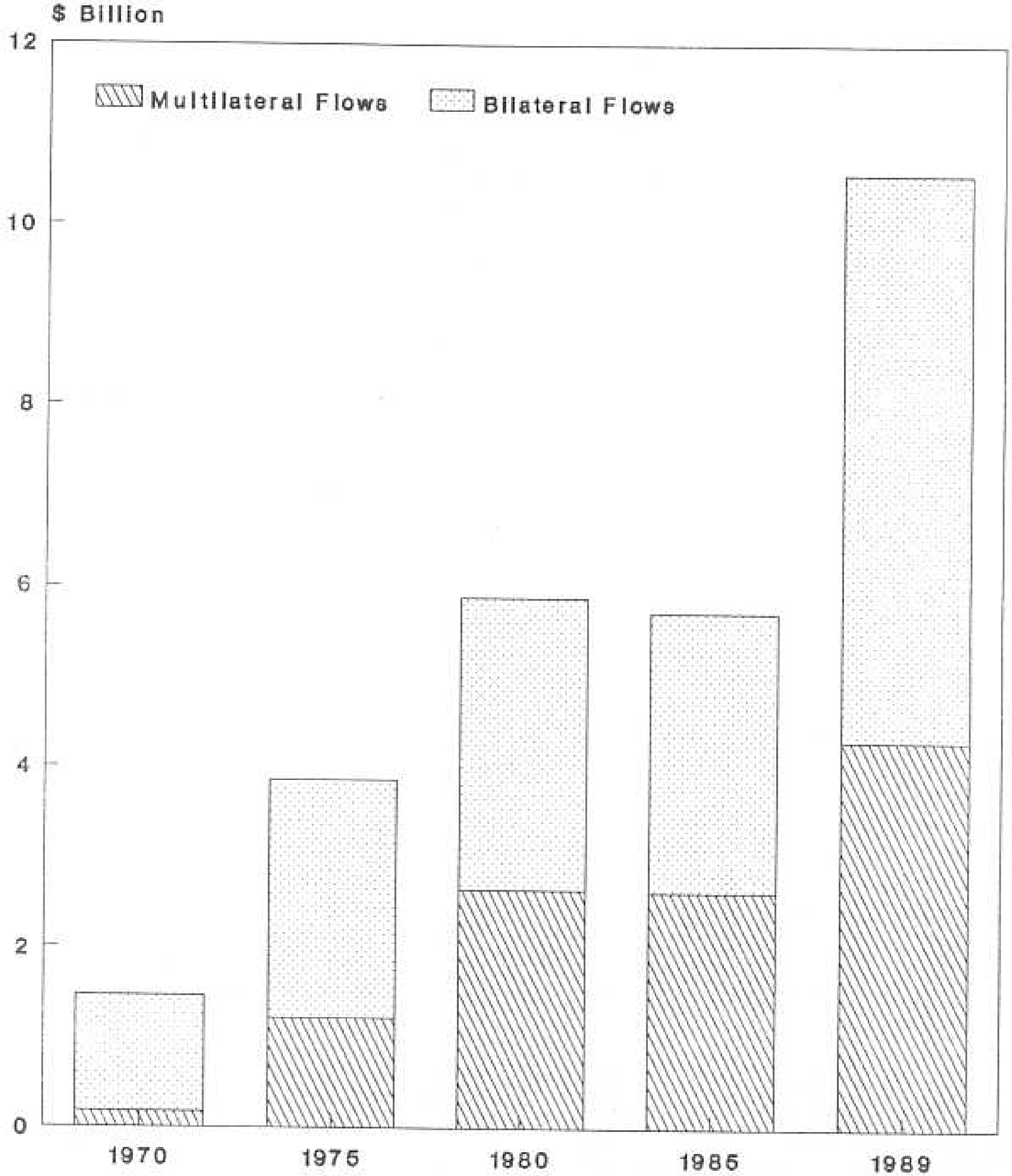
92. South Asian countries are characterized by low per capita income and high incidence of poverty. Surplus labor in rural area is large and still rapidly growing. Industrialization has not progressed sufficiently and, therefore, the industrial sector is absorbing only a limited number of the surplus and growing labor force. Rapid growth of population together with wide-spread poverty have accelerated environmental degradation. The level of human resource development is unsatisfactory: the adult literacy rate is low, health conditions are poor, and malnutrition is widespread. There is a serious shortage of both social and physical infrastructure.

93. Looking ahead, the development challenges to be faced by South Asian countries in the 1990s will be more severe than those in the 1980s. These development challenges will require large investments in human resource and physical infrastructure. Financing these investments should in principle be met by domestic resources, but their capability in mobilizing domestic resources is still limited. As fiscal deficits are high and the balance of payments situations are precarious, continued inflows of financial and technical assistance from external sources will be essential for these countries to sustain their economic growth. Broadly speaking, there are five important development challenges facing South Asia in the medium term.

94. The first and probably the most important challenge facing South Asian countries is poverty alleviation. Despite some progress made in the past few decades, the issue of poverty remains serious in many parts of the region. About one billion people in the world live in absolute poverty (see World Bank, World Development Report 1990). Of these, about 750 million live in Asia, mainly in South Asia. Alleviation of poverty has been and remains the primary objective of development efforts in South Asian countries.

95. The second challenge facing South Asian countries is the need for human resource development. The importance of human resources in promoting economic development has long been recognized. Investments in the social sectors including education, health, population and nutrition can directly support industrial development through improved productivity

Figure 6. Bilateral and Multilateral Flows to South Asia : 1970-1989



Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues).

of workers. In addition to alleviating poverty, investments in education and training can provide a means of increasing skills which would be required for the introduction of technology in industry and agriculture. An ADB report (1990) on human resource development notes that education, health, nutrition, and fertility tend to be mutually reinforcing as well as positively interactive with income and other aspects of a country's development.

96. In South Asia, except in Sri Lanka and Myanmar, literacy levels are quite low with gender differentials very pronounced. Furthermore, the number of illiterates grew from 200 million to 400 million over the three decades since 1951 despite the improvement in literacy rates. Two-thirds of workers in South Asia have no formal education compared with one-fifth in the NIEs and a quarter in Southeast Asia. Much progress has been made in prolonging life expectations in many Asian developing countries over the last two decades. However, in most South Asian countries, the mean life expectancy is still far below that of industrial countries.

97. The third challenge is the need for environmental protection. Environmental degradation is widespread in South Asia as in many other parts of the world. South Asia has supported large and growing populations. One consequence has been that much of the region's resources has been excessively exploited and have become depleted. Unless effective measures are taken to halt the depletion of natural resources and reverse environmental degradation, the region will end up with fewer forests, more degraded lands, increasing water shortages, and more crowded and polluted cities. Economic growth will then become less and less sustainable.

98. The fourth development challenge facing South Asian countries is the need for private sector development. In South Asian countries, the public sector has played a dominant role in their economic activity. The performance of their public sector has, however, been disappointing. Inefficient management and excessive interference by government led many public enterprises to low productivity and a drain on the government budget. To remedy the situation, greater attention is being given to policies that reduce the role of the public sector and enlarge the workings of market forces. Privatization of public enterprises is, therefore, being pursued in most South Asian countries, although in varying degrees. Privatization, however, has not been smooth in all cases. The divestiture of public enterprises has not been easily accepted. Therefore, the role of the public sector remains large in most South Asian countries and public enterprises continue to cause a drain on public revenues.

99. The last, but not the least, challenge facing South Asia is the need for structural adjustment. It is now generally recognized that overall economic inefficiency and stagnating domestic resource mobilization in South Asia have been caused mainly by domestic policy failures. Increasing attention is being given to structural adjustment through policy reforms.

100. Structural adjustment implies changes in relative prices and institutions designed to make the economy more efficient, more flexible, and better able to use resources and thereby to engineer sustainable long-term growth (see World Bank, 1988). In most South Asian countries, some steps have been taken toward liberalizing the economy and improving incentives. However, the industrial sector and trade regime remain subject to a number of restrictive regulatory requirements. This tends to limit the efficient development of industry. Further reforms in industrial policies and in the trade regime are urgently required to enhance the efficiency of the overall economies in South Asia.

101. Five development challenges facing South Asia have been discussed in this section. Although these five issues cannot claim to be exhaustive, they will continue to be the center of attention in the economic development of South Asia in the medium term. MFIs have an important role to play in addressing these challenges as described below.

102. Poverty alleviation on a sustainable basis can be achieved only through vigorous efforts to accelerate economic growth, improve access of the poor to economic opportunities and promote human resource development. The burden of alleviating poverty primarily lies in the hands of individual governments. MFIs can help, however, by paying special attention to poverty alleviation issues when formulating and implementing projects. In the appraisal of projects, the impact on the poor should be closely examined and project evaluation methodology will need to be refined to encourage projects which have strong implications on poverty alleviation. MFIs also need to formulate strategies for poverty reduction and introduce these into the policy dialogue of structural adjustment programs.

103. In view of the pivotal role of human resources in economic development, there is a need for more rigorous attention at various levels of government, in business and in the household on the issue of human resource development. MFIs have played an important role by providing financial and technical assistance in the areas of improved education, health services and family planning. External assistance should further be increased and be provided on concessional terms, given the long-term nature of investment in human capital and its links to poverty alleviation (see ADB, 1990).

104. Human resource development also includes efforts at enhancing the role of women in development (WID). The WID initiative focuses on increasing women's productivity and income and providing them with social amenities, because these are considered the best way to help themselves and contribute to economic performance, poverty reduction, slower population growth, and environmental sustainability.

105. To address environmental problems, a combination of vigorous private initiative and effective government action is needed. However, MFIs also have an important role to play in the protection of the environment. They need to formalize and strengthen environmental review procedures, integrate environmental strategies into their operations, and

increase support for environment-oriented projects. Cost-benefit methodology should be refined to better address environmental concerns, analyzing global externalities, and investigating the links between poverty, population, and the environment.

106. MFIs need to expand and enhance their support for private sector development in South Asia. Policy dialogue in connection with structural adjustment loans, program loans and technical assistance will be essential in improving the environment for private sector development. Improvement in the policy environment will encourage the inflow of foreign direct investment, which will in turn contribute to private sector development. Special emphasis should also be placed on the restructuring and privatization of the public sector, and on financial sector reforms including the development of a capital market.

107. To help South Asian countries structurally adjust their economies to the changing environment, MFIs should provide policy advice and financial support for sound structural reform programs. Financial assistance for structural adjustment is necessary to help the country cushion the initial impact of policy reforms. MFIs are particularly suited to this line of operations as they have comparative advantage in their ability to use their experience and comparative perspective on development policy.

108. Although the advantages of multilateral flows are recognized, it is clear that the enormous development challenges in South Asia cannot be met by MFIs alone. The roles of individual governments are essential and provide the first step towards their solutions. In this regard, MFIs can possibly help the South Asian countries cope with the situation in several ways.

109. First, to maximize the impact of their limited amount of resources with due consideration on the development challenges mentioned above, MFIs should be more selective in financing projects and programs by setting an appropriate order of priorities. A sharper focus will be required in establishing an operational country strategy for each country. The order of priority in the selection of projects should reflect development challenges facing South Asian countries. Efficient coordination among donor institutions will also be essential to maximize the impact of limited multilateral resources.

110. Second, financial resources of MFIs will need to be expanded. MFIs should continue their efforts at encouraging donor countries to increase their subscribed capital and contribute to various funds managed by MFIs. To convince donor countries, MFIs will need to prove that their resources are being used efficiently for economic development in the developing world. At the same time, MFIs need to borrow from the international capital markets at favorable interest rates. For this purpose, their asset and liability management will have to remain sound.

111. Third, MFIs will also have to strengthen their catalytic role through cofinancing with a view to encouraging the participation of private capital in the development process in South Asia. In an international environment where commercial banks are hesitant in expanding credit to developing countries, cofinancing will be useful in inducing additional private capital for development finance.

112. Fourth, MFIs should help South Asian countries to improve their own economic policies so that they can enhance their ability to mobilize domestic resources. This can be done by providing policy advice and structural adjustment loans for necessary policy reforms. Policy consideration is particularly important because greater multilateral assistance is warranted only if the government takes the necessary policy reforms in improving efficiency and mobilizing more domestic resources.

VI. CONCLUSIONS

113. South Asia relied heavily on external finance, as foreign saving averaged nearly 4 per cent of GDP during the past decade. Compared with other regions of the world, South Asia benefitted significantly from the relatively high amount of external finance. The share of South Asia in the total financial flows to developing world rose from 7 per cent in 1980 to 15 per cent in 1989.

114. Foreign capital flows to South Asian countries generally have been in the form of ODA. However, the share of ODA declined significantly during the last two decades, particularly since India and Pakistan started to borrow actively from the international capital market. Although ODA still accounts for the majority of financial flows to South Asia, its share in total net flows declined sharply from 93 per cent in 1970 to 57 per cent in 1989. This ODA share is close to the average for the developing world as a whole, implying that South Asia is not particularly favored in the allocations of ODA despite their low income status and large population. In 1989, per capita ODA for South Asia was less than half the average for the developing world as a whole.

115. In the case of multilateral loans, concessional flows used to be dominant, but its share has declined. This change is partly a reflection of the entry of China into the World Bank and IDA's increased emphasis on Sub-Saharan Africa. The share of South Asia in total concessional multilateral flows fell from 43 per cent in 1980 to 32 per cent in 1989, while that of Sub-Saharan Africa rose from 34 per cent to 42 per cent during the same period. The share of China rose from zero to 9 per cent in the same period.

116. In the case of bilateral loans, concessional flows continue to be dominant although their share declined significantly during the last two decades. The share of grants in total flows also fell substantially. All these changes made the share of ODA in the total net flows to fall in South Asia.

117. Bilateral flows have generally been larger than multilateral flows in South Asia. However, the share of multilateral flows rose sharply in the 1970s with a modest decline in the 1980s due to the faster rise in commercial bank borrowing. In 1989 this share was 41 per cent, which is much higher than 12 per cent for South Asia in 1970 and 21 per cent for the developing countries as a whole in 1989.

118. Among various sources of multilateral flows, the World Bank group remains the leading source. However, there has been some important changes within these flows to South Asia: IDA used to be the most important source of multilateral flows, but its share fell gradually in the 1980s. On the other hand, the shares of ADB loans and nonconcessional IBRD loans showed a sharp rising trend.

119. The European countries have been the largest suppliers of bilateral flows to South Asia, their share in total bilateral flows having exceeded that of the US in the latter half of 1970s. Financial flows from Japan have shown a rapid increase particularly since 1986, reflecting the appreciation of Japanese yen following the Plaza Accord. As a single country, Japan has been the largest donor in South Asia since 1983.

120. The share of private flows to South Asia has increased sharply in recent years to 24 per cent of total net flows in 1989. This share is, however, still lower than the average for the developing world as a whole. The main source of private flows has been international commercial banks. On the other hand, foreign direct investment remains insignificant, accounting for less than three per cent of total net flows.

121. Reflecting the above changing pattern in external finance, the external debt outstanding of South Asian countries rose sharply in the 1980s and the debt situation as assessed by various debt indicators deteriorated significantly.

122. While the global supply of external finance in the medium term is projected to grow at a moderate pace in view of the projected slow growth in ODA and cautious attitude of private investors, the global demand for external finance is expected to rise rapidly to meet the increasing developmental needs in the developing world. This implies that there will be greater competition among developing countries in the allocation of limited external resources. In particular, South Asian countries will need an increasing amount of concessional aid to meet their ever increasing development challenges: poverty alleviation, human resource development, environmental protection, private sector development, and structural adjustment.

123. These challenges will have to be met mainly by their own efforts and financed through domestic resources. South Asian countries will therefore have to make efforts at improving economic policies and institutional capabilities for domestic resource mobilization. The mobilization of domestic resources cannot, however, be strengthened in a short period of time, while most development challenges facing South Asian

countries require immediate attention. The role of foreign aid is therefore essential in meeting these challenges.

124. The less promising prospects for the global supply of external finance justify the need for an increase in the role of MFIs, particularly in view of their advantages over bilateral flows. In contrast to bilateral aid, MFIs give greater weight to developmental criteria in the allocation of resources. This helps in the more efficient utilization of aid resources. Furthermore, MFIs generally have a comprehensive, well-informed view of economic and sectoral conditions in the countries of their operations. As this knowledge is actively used in the selection and design of projects and programs, effectiveness of aid can be enhanced.

125. The role of MFIs in economic development in South Asia is summarized as follows:

i. To maximize the impact of their limited amount of resources with due consideration to the development challenges, MFIs should be more selective in financing projects and programs by setting an appropriate order of priorities. A sharper focus will be required in establishing an operational country strategy for each country.

ii. Financial resources of MFIs will need to be expanded. MFIs should continue their efforts at encouraging donor countries to increase their subscribed capital and contribute to various funds managed by MFIs. At the same time, MFIs need to borrow from international capital market at favorable interest rates by maintaining sound asset and liability management.

iii. MFIs will have to strengthen their catalytic role through cofinancing with a view to encouraging the participation of private capital in the development process in South Asia. In an international environment where commercial banks are hesitant in expanding credit to developing countries, cofinancing will be useful in inducing additional private capital for development finance.

iv. MFIs should help South Asian countries to improve their economic policies so that they can enhance their ability to mobilize domestic resources. This can be done by providing policy advice and structural adjustment loans for necessary policy reforms.

APPENDIXES

Financial Flows to South Asia: 1970-1989

(In million US dollars)

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
TOTAL RECEIPTS NET [1]	1446	3843	4027	2817	3768	4107	5871	5221	5745	5076	5300	5707	7468	7352	9072	10562
OFFICIAL vs. PRIVATE																
a. TOTAL OFFICIAL NET	1394	3973	3979	2829	3737	4025	5498	4799	5119	4928	4966	5085	6352	6364	8465	8052
OFFICIAL DEVELOPMENT ASSISTANCE	1342	3897	3917	2786	3654	3910	5294	4660	4677	4452	4562	4622	5832	5570	6545	6034
Multilateral	...	1131	992	1019	1225	1351	2539	2019	2324	2233	2334	2320	2509	2517	2709	2537
Bilateral	...	2766	2925	1766	2429	2559	2755	2641	2353	2219	2228	2302	3323	3054	3836	3497
OTHER OFFICIAL FLOWS,NET	51	77	62	43	83	115	204	139	443	477	404	463	520	793	1920	2018
b. NET PRIVATE FLOWS	53	-131	49	-12	32	83	374	423	626	147	334	622	1116	988	607	2509
DIRECT INVESTMENTS	49	61	40	-13	40	56	121	131	97	17	112	120	98	254	139	199
PORTFOLIO INVESTMENTS	-24	-17	8	-31	-28	-37	-15	10	206	179	237	222	259	353	687	1150
EXPORT CREDITS	28	-175	1	32	20	64	267	282	323	-49	-15	280	759	382	-220	1160
BILATERAL vs. MULTILATERAL																
c. BILATERAL	1276	2627	2966	1719	2377	2612	3220	3038	3018	2424	2619	3085	4568	3976	4758	6259
JAPAN	105	147	153	183	398	668	582	498	580	577	585	601	1323	1518	2338	1981
U.S.A.	666	750	463	202	289	246	469	438	576	469	385	566	373	336	702	1305
EUROPE	334	664	794	772	1126	1457	1650	1823	1558	1109	1249	1639	2292	1550	1380	2098
OPEC	...	787	1383	370	301	25	322	50	30	12	65	61	73	-21	-43	-24
OTHERS	171	279	173	191	263	217	198	230	275	257	336	218	506	594	381	900
d. MULTILATERAL	170	1215	1062	1095	1391	1494	2651	2184	2727	2652	2681	2622	2900	3376	4314	4302
ADB	6	106	46	88	175	143	131	124	165	216	303	384	379	481	694	1007
IBRD	36	28	50	43	128	82	105	156	383	332	282	199	469	857	1502	1457
IDA	70	608	736	557	508	723	906	1096	1385	1332	1343	1342	1529	1333	1408	1061
U.N.	42	279	185	194	229	288	369	442	471	467	456	432	414	464	475	456
OTHERS	16	194	45	212	352	257	1140	366	323	307	299	266	110	241	235	322

[1] Total receipts are classified into official and private flows. Therefore, the sum of items a and b is equal to total receipts. Total receipts are also divided into bilateral flows and multilateral flows. Therefore, the sum of items c and d is equal to total receipts.

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues).

Financial Flows to Bangladesh: 1971-1989

(In million US dollars)

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
TOTAL RECEIPTS NET [1]	15	1064	537	772	1000	1190	1259	1076	1356	1106	1250	1120	1429	1609	1592	1807
OFFICIAL vs. PRIVATE																
a. TOTAL OFFICIAL NET	15	1074	537	765	987	1193	1253	1096	1316	1100	1212	1137	1430	1608	1579	1817
OFFICIAL DEVELOPMENT ASSISTANCE	15	1018	532	765	990	1156	1262	1095	1346	1067	1201	1152	1456	1636	1592	1802
Multilateral	...	253	201	216	296	368	362	376	398	388	512	520	614	683	675	844
Bilateral	...	765	331	549	693	788	900	719	948	679	689	632	842	953	917	958
OTHER OFFICIAL FLOWS,NET	...	56	5	0	-2	37	-9	1	-31	33	12	-15	-26	-28	-13	16
b. NET PRIVATE FLOWS	...	-10	0	7	13	-2	6	-20	40	6	38	-17	-2	1	13	-10
DIRECT INVESTMENTS	...	0	5	7	8	-8	9	5	7	1	4	-7	-2	-5	9	1
PORTFOLIO INVESTMENTS	...	...	0	0	0	1	0	0	9	-22	-6	-17	19	-4	6	-78
EXPORT CREDITS	...	-10	-5	-1	5	5	-3	-25	24	28	40	7	-18	10	-2	67
BILATERAL vs. MULTILATERAL																
c. BILATERAL	9	756	335	556	705	786	909	701	988	688	754	609	837	953	932	968
JAPAN	...	47	31	66	121	205	221	147	215	104	123	124	258	329	338	372
U.S.A.	...	379	77	81	165	157	174	118	185	204	219	159	139	142	120	138
EUROPE	8	184	161	195	298	316	393	331	338	186	227	251	232	307	335	387
OPEC	...	61	11	165	27	13	50	48	126	96	29	10	83	26	-14	-12
OTHERS	1	85	54	49	94	95	71	58	124	97	156	65	125	149	152	83
d. MULTILATERAL	6	308	201	216	296	404	351	375	368	418	496	512	592	656	660	840
ADB	...	17	6	12	36	40	58	44	33	49	77	143	139	173	222	317
IBRD	...	55	...	...	...	...	...	...	...	...	...	-1	-1	-1	-1	-2
IDA	...	129	115	88	103	163	156	159	187	199	247	273	335	328	287	288
U.N.	...	47	65	42	78	83	62	77	84	81	120	78	91	120	109	119
OTHERS	6	60	15	74	79	119	75	95	64	89	52	18	28	37	44	118

[1] Total receipts are classified into official and private flows. Therefore, the sum of items a and b is equal to total receipts. Total receipts are also divided into bilateral flows and multilateral flows. Therefore, the sum of items c and d is equal to total receipts.

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues).

Financial Flows to India: 1970-1989

(In million US dollars)

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
TOTAL RECEIPTS NET [1]	839	1693	1832	1049	1314	1288	2388	2341	2170	2248	2194	2507	3818	3499	4123	5120
OFFICIAL vs. PRIVATE																
a. TOTAL OFFICIAL NET	820	1660	1788	1098	1395	1391	2260	2068	1953	2094	1927	1872	2690	2440	3718	3419
OFFICIAL DEVELOPMENT ASSISTANCE	825	1708	1821	1106	1339	1370	2127	1910	1545	1741	1672	1592	2120	1839	2097	1906
Multilateral	...	685	596	491	450	578	1522	1050	1186	1127	1016	1048	1087	912	1168	768
Bilateral	...	1023	1225	615	889	792	605	860	359	613	657	544	1032	927	929	1139
OTHER OFFICIAL FLOWS,NET	-5	-49	-33	-8	56	20	132	158	408	353	255	280	570	601	1621	1513
b. NET PRIVATE FLOWS	19	33	44	-49	-81	-102	129	273	217	154	266	635	1128	1059	405	1701
DIRECT INVESTMENTS	46	85	50	-36	18	49	79	92	72	6	19	106	118	212	91	188
PORTFOLIO INVESTMENTS	-3	-10	7	-29	-33	-86	-17	0	138	159	296	234	111	419	731	695
EXPORT CREDITS	-23	-42	-13	16	-66	-66	67	181	8	-11	-50	295	899	428	-417	818
BILATERAL vs. MULTILATERAL																
c. BILATERAL	765	1024	1226	519	750	652	777	1121	623	814	931	1273	2344	1908	1643	3136
JAPAN	38	50	71	30	59	40	38	34	28	199	124	68	457	649	1123	1097
U.S.A.	422	214	113	-31	21	15	170	213	112	111	40	130	-110	126	118	174
EUROPE	197	441	477	349	411	559	565	897	567	542	675	992	1705	851	397	1325
OPEC	...	204	500	134	219	23	-28	-70	-112	-76	23	28	17	-23	-20	5
OTHERS	108	115	64	37	41	15	32	48	29	37	70	56	275	305	25	535
d. MULTILATERAL	74	669	607	530	563	636	1611	1220	1547	1434	1262	1234	1473	1591	2480	1984
ADB	...	...	...	...	...	...	...	...	...	...	-	-	-	12	57	82
IBRD	-4	-13	8	36	124	76	117	178	351	308	264	170	398	708	1225	1114
IDA	46	456	526	352	303	422	609	750	927	899	782	820	888	656	820	473
U.N.	23	129	58	81	92	103	106	102	99	110	108	104	102	101	151	147
OTHERS	10	97	15	61	44	34	779	190	170	117	108	140	85	113	227	169

[1] Total receipts are classified into official and private flows. Therefore, the sum of items a and b is equal to total receipts. Total receipts are also divided into bilateral flows and multilateral flows. Therefore, the sum of items c and d is equal to total receipts.

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues).

Financial Flows to Myanmar: 1970-1989
(In million US dollars)

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
TOTAL RECEIPTS NET[1]	30	49	73	106	358	518	403	328	418	298	284	321	373	352	473	91
OFFICIAL vs. PRIVATE																
a. TOTAL OFFICIAL NET	22	54	69	102	277	368	314	285	317	300	280	356	413	366	456	117
OFFICIAL DEVELOPMENT ASSISTANCE	23	58	71	102	274	364	309	284	319	302	275	356	416	368	451	184
Multilateral	...	29	32	47	117	105	77	80	111	86	126	103	108	127	118	94
Bilateral	...	29	39	55	157	259	231	204	208	216	149	253	308	241	333	90
OTHER OFFICIAL FLOWS,NET	-2	-4	-3	0	3	4	6	1	-2	-2	6	0	-2	-2	5	-67
b. NET PRIVATE FLOWS	8	-6	5	5	81	151	89	43	101	-3	4	-35	-41	-14	16	-26
DIRECT INVESTMENTS	0	3	0	0	0	0	0	0	0	0	1	...	0	-2	-	-
PORTFOLIO INVESTMENTS	-1	0	0	0	1	40	-39	5	13	1	-1	-4	-3	0	0	4
EXPORT CREDITS	9	-9	5	5	81	111	127	38	88	-3	4	-32	-38	-13	16	-30
BILATERAL vs. MULTILATERAL																
c. BILATERAL	30	22	43	59	238	413	325	248	307	211	158	219	265	225	355	-3
JAPAN	14	19	23	18	125	190	144	124	123	101	115	142	226	164	287	71
U.S.A.	2	-1	-1	9	2	...	...	1	6	4	7	8	9	11	10	2
EUROPE	11	0	15	24	101	208	157	115	161	100	28	60	39	49	50	-81
OPEC	...	...	...	...	...	...	...	...	...	...	0	...	-	0	-	0
OTHERS	3	3	5	8	9	16	23	8	18	7	8	9	-9	2	8	4
d. MULTILATERAL	...	27	31	47	120	102	78	80	111	86	126	102	108	127	118	94
ADB	...	3	7	11	61	21	14	21	35	17	25	32	27	36	36	25
IBRD	-3	-3	-2	-1	...	...	...	...	...	...	...	...	-	-	-	-
IDA	...	16	18	19	25	35	26	38	42	43	79	43	44	65	63	52
U.N.	3	10	7	10	10	22	17	17	16	12	14	24	21	21	19	17
OTHERS	...	0	1	8	24	25	21	3	18	15	8	3	17	6	1	-1

[1] Total receipts are classified into official and private flows. Therefore, the sum of items a and b is equal to total receipts. Total receipts are also divided into bilateral flows and multilateral flows. Therefore, the sum of items c and d is equal to total receipts.

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues).

Financial Flows to Nepal: 1970-1989
(In million US dollars)

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
TOTAL RECEIPTS NET [1]	24	46	50	82	78	140	161	181	199	197	202	246	331	374	428	496
OFFICIAL vs. PRIVATE																
a. TOTAL OFFICIAL NET	24	46	50	82	77	137	163	180	200	201	201	240	301	347	400	495
OFFICIAL DEVELOPMENT ASSISTANCE	24	46	50	80	77	137	163	181	201	201	198	236	301	347	399	493
Multilateral	...	17	21	38	36	51	72	84	89	92	101	114	127	154	170	242
Bilateral	...	29	30	42	41	86	91	97	111	109	98	122	174	193	229	251
OTHER OFFICIAL FLOWS,NET	0	0	0	2	1	0	0	0	0	-	2	4	0	0	1	2
b. NET PRIVATE FLOWS	0	1	0	0	1	4	-1	0	-1	-3	1	7	30	27	29	1
DIRECT INVESTMENTS	0	0	0	0	0	0	0	0	0	-1	1	1	1	1	1	0
PORTFOLIO INVESTMENTS	0	0	...	0	...	0	0	0	1	-1	0	0	0	-2	10	-19
EXPORT CREDITS	0	0	0	0	0	3	-1	1	-2	-2	0	6	29	27	18	19
BILATERAL vs. MULTILATERAL																
c. BILATERAL	20	29	29	43	42	90	90	97	111	105	98	130	204	220	259	253
JAPAN	0	3	3	5	10	23	23	30	35	25	29	52	76	73	62	77
U.S.A.	17	7	15	10	4	5	8	12	19	22	22	21	17	19	15	14
EUROPE	2	19	10	20	22	52	45	39	48	50	39	49	82	86	142	103
OPEC	...	0	0	5	2	4	7	9	0	-1	-1	-2	4	4	4	2
OTHERS	1	1	1	4	4	6	6	8	9	8	9	9	25	39	35	57
d. MULTILATERAL	3	17	21	36	36	51	72	83	89	92	103	117	127	154	170	243
ADB	0	4	7	6	5	7	9	14	19	23	37	42	35	28	42	83
IBRD	...	...	...	...	...	...	...	...	...	...	-	-	-	-	-	-
IDA	0	2	4	12	11	19	25	33	34	30	29	33	54	78	82	107
U.N.	3	10	11	14	13	20	33	30	28	33	24	32	25	28	34	37
OTHERS	0	1	-1	3	7	6	5	7	8	6	13	10	13	20	13	16

[1] Total receipts are classified into official and private flows. Therefore, the sum of items a and b is equal to total receipts. Total receipts are also divided into bilateral flows and multilateral flows. Therefore, the sum of items c and d is equal to total receipts.

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues).

Financial Flows to Pakistan: 1970-1989

(In million US dollars)

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
TOTAL RECEIPTS NET [1]	495	843	1382	628	705	648	1226	874	1129	696	729	929	1005	975	1876	2305
OFFICIAL vs. PRIVATE																
a. TOTAL OFFICIAL NET	472	929	1374	594	676	616	1112	796	904	731	841	978	947	1070	1725	1654
OFFICIAL DEVELOPMENT ASSISTANCE	421	893	1277	546	651	561	1040	813	849	669	749	802	970	879	1408	1103
Multilateral	...	96	103	165	222	164	418	339	429	415	435	390	413	468	423	439
Bilateral	...	797	1174	381	429	397	622	473	421	254	315	412	557	411	986	665
OTHER OFFICIAL FLOWS,NET	50	36	97	48	25	55	72	-17	55	63	92	176	-24	191	317	551
b. NET PRIVATE FLOWS	23	-86	8	34	29	32	114	78	224	-35	-113	-49	58	-96	151	651
DIRECT INVESTMENTS	4	6	5	10	11	9	22	23	6	-1	17	15	16	21	26	8
PORTFOLIO INVESTMENTS	-20	-8	1	-2	6	7	41	-5	68	39	-70	-5	128	-63	-64	578
EXPORT CREDITS	40	-84	3	25	12	17	51	59	150	-74	-59	-59	-86	-54	189	66
BILATERAL vs. MULTILATERAL																
c. BILATERAL	408	703	1220	424	434	433	776	525	638	217	194	417	561	298	1132	1318
JAPAN	48	15	15	43	48	173	109	114	108	63	58	93	167	150	324	179
U.S.A.	215	133	227	96	56	29	62	63	205	66	13	162	253	5	400	937
EUROPE	94	42	94	152	197	189	288	230	257	32	60	87	142	113	333	49
OPEC	...	458	841	59	49	-21	283	52	18	-3	14	19	-53	-30	-20	-18
OTHERS	51	55	43	75	84	63	33	65	50	58	49	56	53	60	95	172
d. MULTILATERAL	86	140	162	204	272	216	450	349	491	480	535	512	443	677	743	987
ADB	5	76	21	50	47	68	46	36	63	100	139	138	139	186	275	425
IBRD	44	-14	44	9	5	6	-10	-20	30	11	7	29	75	150	276	344
IDA	23	-8	67	74	55	73	70	88	141	100	126	100	124	124	101	90
U.N.	9	63	19	19	25	40	131	198	223	212	174	173	158	170	134	117
OTHERS	5	23	11	52	140	30	213	47	34	57	90	72	-53	46	-43	11

[1] Total receipts are classified into official and private flows. Therefore, the sum of items a and b is equal to total receipts. Total receipts are also divided into bilateral flows and multilateral flows. Therefore, the sum of items c and d is equal to total receipts.

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues).

Financial Flows to Sri Lanka: 1970-1989

(In million US dollars)

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
TOTAL RECEIPTS NET [1]	59	148	153	180	313	323	434	422	473	530	642	584	514	544	581	743
OFFICIAL vs. PRIVATE																
a. TOTAL OFFICIAL NET	57	211	161	188	324	321	396	374	429	502	504	503	571	533	588	550
OFFICIAL DEVELOPMENT ASSISTANCE	49	175	166	187	324	323	393	378	417	473	467	485	570	502	598	546
Multilateral	...	52	39	63	104	86	88	90	111	124	145	145	161	173	156	151
Bilateral	...	123	127	125	220	237	305	288	306	348	322	340	410	329	442	395
OTHER OFFICIAL FLOWS,NET	8	37	-5	1	1	-1	4	-4	13	30	38	18	1	31	-11	4
b. NET PRIVATE FLOWS	2	-64	-8	-8	-11	1	38	48	44	28	138	81	-57	11	-7	193
DIRECT INVESTMENTS	-1	-33	-19	6	3	7	11	10	11	12	71	4	-35	26	13	2
PORTFOLIO INVESTMENTS	0	0	-1	0	-2	0	0	10	-23	4	18	14	5	2	4	-29
EXPORT CREDITS	3	-31	12	-14	-12	-6	26	28	56	13	50	63	-27	-17	-24	220
BILATERAL vs. MULTILATERAL																
c. BILATERAL	52	93	113	119	209	238	344	346	352	389	483	438	357	372	438	588
JAPAN	5	14	9	22	36	38	46	50	71	84	137	123	139	153	205	185
U.S.A.	10	18	32	37	41	40	55	31	49	62	84	86	65	33	39	40
EUROPE	29	-22	36	34	97	132	200	211	188	199	220	200	93	145	122	315
OPEC	...	63	32	8	5	5	10	11	-2	-5	0	6	22	2	6	-3
OTHERS	9	20	5	19	31	22	33	43	45	49	43	23	38	38	66	50
d. MULTILATERAL	7	54	40	61	104	85	89	76	122	142	159	146	158	172	142	155
ADB	2	6	6	10	26	8	5	8	15	27	25	28	39	47	63	76
IBRD	-1	2	0	-2	-1	-1	-2	-2	3	13	11	1	-2	0	2	1
IDA	1	14	5	11	11	12	20	28	54	59	79	73	84	81	55	51
U.N.	4	20	25	28	11	20	20	18	21	19	16	21	17	25	29	18
OTHERS	1	12	5	15	57	45	47	24	29	24	28	23	20	19	-7	8

[1] Total receipts are classified into official and private flows. Therefore, the sum of items a and b is equal to total receipts. Total receipts are also divided into bilateral flows and multilateral flows. Therefore, the sum of items c and d is equal to total receipts.

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries* (Paris, various issues).

References

Asian Development Bank. 1991. *Annual Report 1990*. Manila.

______________. 1991. *Asian Development Outlook 1991*. Manila.

______________. 1991. "Regional Study on Resource Flows and Financial Intermediation." Draft Report. Manila.

______________. 1989. *The Asian Development Bank in the 1990s*. Panel Report. Manila.

______________. 1990. *Human Resource Policy and Economic Development*. Manila.

Robert Cassen and Associates. 1986. *Does Aid Work?* Oxford.

Commonwealth Secretariat. 1991. *Change for the Better*. London.

International Monetary Fund. 1989. *Annual Report 1989*. Washington, D. C.

____________. 1991. *World Economic Outlook*. Washington, D. C.

Krueger, Anne O. 1991. "The Role of Multilateral Lending Institutions in the Development Process." *Asian Development Review*, vol.7, no.1.

Lee, Jungsoo. 1990. *A Survey of the External Debt Situation in Asian and Pacific Developing Countries: 1988-1989*. Statistical Report Series, No. 14. Manila: Asian Development Bank.

Lee, Jungsoo and I.P. David. 1989. *Changing Pattern of Financial Flows to Asian and Pacific Developing Countries*. Statistical Report Series, No.11. Manila: Asian Development Bank.

Lewis, John P. and Others. 1985. "Does Aid Work?" Draft Report.

Linn, Johannes F. and Phi Anh Plesch. 1991. "The Role of International Agencies in the Developing Economies of the Asia-Pacific Region." Draft Report.

Ministry of Foreign Affairs (Japan), Japan's Official Development Assistance. 1990. 1989. *Annual Report*. Tokyo.

Organization for Economic Cooperation and Development. 1991. *Geographical Distribution of Financial Flows to Developing Countries*. Paris.

______________. 1990. *Development Co-operation, 1990 Report*. Paris.

Tang, Min. 1991. *A Survey of the External Debt Situation in Asian and Pacific Developing Countries: 1989-1992*. Statistical Report Series, No. 15. Manila: Asian Development Bank.

Watanabe, Hiroshi. 1991. "Prospects for World Flow of Funds in the 1990s: The Asian Perspective." Paper prepared for ADB Development Round Table. Manila.

World Bank. 1991. *World Debt Tables*, 1990-91 edition. Washington D.C.

______________. 1991. *Policy Research Bulletin*, vol.2, No.1.

______________. 1990. *Annual Report 1990*. Washington D.C.

______________. 1990. *World Development Report 1990*. Washington, D. C.

______________. 1988. "Report on Adjustment Lending." Mimeographed. Washington, D.C.

______________. 1985. *World Development Report 1985*. Washington, D.C.