Private Capital Flows to Low-income Countries: Perception and Reality

By Matthew Martin with Cleo Rose-Innes

Until recently, low-income countries have been perceived as receiving virtually no private foreign capital. Yet many low-income countries have long known the reality: that low-income countries with stable economies and open investment policies have received extremely large flows, which have caused currency crises and macroeconomic instability.

Based on phase I of the FPC CBP, DFI was asked to contribute Chapter 2 of the Canadian Development Report 2004, produced by the North-South Institute. This article presents the reality of large private capital flows to low-income countries. The article examines the nature and composition of foreign private capital in these countries; why the flows are occurring (including investor perceptions from both domestic and foreign direct investors) the implications for government policy; and the need for capacity building in low-income countries to monitor and analyse foreign private capital.

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