By Nils Bhinda and Matthew Martin

This book is based on the excellent analysis conducted by country teams under the programme from Africa and Latin America.

It confirms earlier findings that the amounts countries have been receiving are very large compared to their economies, more diversified by source country (especially South), and as volatile as they are in larger emerging markets. It also shows that investors are remarkably positive in their intentions to increase future investment, even in relatively risky countries, having overcome negative perceptions and confronted a reality of very high investment returns. Tracing the impact of foreign private capital on LICs in Africa and Latin America, it shows why, if analysis by the countries themselves had been more widely understood, the international community might have responded faster and prevented the impact of the global financial crisis from being so pernicious.

It therefore also raises warning flags about assuming private flows are automatically or sufficiently positive for development. First, in terms of stability. Chapters 1 and 2 show high volatility for all private flows (including the supposedly "more stable" FDI) before the crisis hit: even aid is less volatile and more predictable in most countries. The crisis has underlined that private flows are not a stable and predictable source. Second, Chapter 2 emphasises the high degree of debt used for what were widely thought to be "equity" projects. This emphasises the high debt risk which foreign private capital is bringing, which the international community needs to monitor closely to avoid future private debt crises. It also made countries vulnerable to FPC falls as the crises hit loans. Third, the country sector case studies in Chapter 4 show that many of the "boom sectors" for FDI were not – even before the crisis – providing sustainable benefits for growth and poverty reduction, in terms of employment, budget revenue, and transfer of technology and skills. It also shows the volatility of the boom sectors, going well beyond commodity vulnerability because of close links to sectoral booms and busts in source countries and global markets. Fourth, investors realise that MDG progress is essential to their business success – because it increases labour skills, reduces disease prevalence, provides more local inputs, and fights climate change and other environmental degradation. But most of them are not doing anywhere near enough to pay taxes so that government can spend more on the MDGs, or (as indicated in Chapter 5) to contribute their own funds to these goals. Fifth, in spite of major improvements in monitoring, analysis and policy formulation discussed in Chapter 6, many countries still do not know reliably what is happening to flows, or how to design policies to maximise their contribution to development of the types discussed in Chapter 7. So they remain highly vulnerable to future crises.

[Private Capital Flows to Low-Income Countries: Dealing with Boom and Bust]