

State of Finance for Developing Countries, 2014: Detailed Methodology

For acronyms, please see the list in the main report. Comments and questions to assistant@Eurodad.org are welcomed.

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Overall methodology

The research aims to establish the most accurate estimates of the real value and scale of all financial resources available to developing countries. This meant estimating: domestic resources; inflows of resources; outflows of resources, focussing on those which have potentially negative implications for developing countries, representing 'losses' or 'lost opportunities'; and debt creating flows.

Estimating inflows and outflows

We compare inflows with outflows 'losses' to give an idea of the overall balance.

Ascertaining this figure for the different inflows and outflows is complicated in practice, but in general terms the methodology is simple. We aimed to estimate the following:

- **Inflows** received by developing countries. To arrive at the best estimate of this figure we try to find the best available data, including taking into account the need to:
 - Remove 'phantom inflows' that never reach the developing country from the overall figures.
 - Prevent double counting, where possible.
- **Identify outflows losses** leaving developing countries. Here we have judged the flows to be a 'loss' if they:
 - Have a negative impact in themselves – such as repatriated profits, which is money flowing out of the country, that were it not to flow out, would have a better impact for the developing country. This is not suggesting that the FDI that was initially invested which led to the profits which were then repatriated is necessarily negative – but that the act of repatriating the profits, rather than say, reinvesting them in the company, is a negative outcome for the developing country.
 - Represent a lost opportunity – i.e. have a significant opportunity cost.

We have estimated debt creating flows separately on a net basis (with new loans counting as positive and repayment of existing loans negative) because (a) over the course of the loan the net figure of loan vs repayment of capital should be zero and (b) they are different in character to other flows. We have counted repayment of interest as a 'loss' outflow, as it represents a resources outflow that in itself has a negative impact on the country. Again, this is not making a judgement on whether each individual loan had an overall positive benefit, but merely noting that interest outflows represent a direct loss of resources.

Double counting

It has not proved possible to remove instances of double counting, as the data is simply not detailed enough. We have therefore commented on this in the text below, but not made adjustments to figures. In many cases, the data from international institutions on inflows and outflows attempts to do this already – for example the OECD counts data as either OOF or ODA, but not both. The main problem arises with domestic resources:

- Domestic investment figures – these will contain a portion of FDI that is reinvested, as well as government investment, which may come, for example, from external borrowing.

- Domestic government revenue – the portion of this that is invested will cross over with domestic investment figures.

Therefore the domestic resources figures should be regarded as a good indication of overall scale, and measurement stick for other resources.

Country classifications

We have tried to identify trends based on the income levels of the countries, by examining Low-income countries (LICs), lower-middle income countries (LMICs) and upper-middle income countries (UMICs) separately. We have chosen these World Bank classifications because they are the only objectively defined classifications that are widely used. The main alternatives – the list of OECD DAC ODA recipients and the IMF's classifications used for its World Economic Outlook – are a negotiated political compromise. Of course, the World Bank's cut off point for each category is essentially arbitrary, and it is clear that this means that the LMIC category in particular is difficult to analyse, as it covers a wide range in terms of development outcomes, with countries at the lower end being very poor in terms of resources per capita.

We have not adjusted the LIC, LMIC and UMIC categories historically. This means that the historical trends graphs for LICs, for example, are for those countries that are currently LICs. In other words, if a country was an LMIC in 2006 but has currently slipped to LIC status, it will be counted as a LIC in our report. This allows us to better understand the trajectory of the current groups of countries, particularly with regards to resources compared with GDP. We feel this offers more insight into how the picture for different groups of countries has changed, as using the historical categorisations means the figures can shift significantly depending on movements between income groups. We will consider also analysing all countries by historical income status in the next edition of this report.

Currency and GDP comparison

We have used current USD figures throughout – i.e. not adjusted for inflation. We have done this to simplify comparisons between different data sources. We have compared the flows to GDP as a way of comparing figures across time. Comparing with GDP allows you to take into account both the impacts of inflation and changes in the size of the developing country's economy. We considered using Purchasing Power Parity (PPP) figures, but decided against this, again for simplicity's sake.

To calculate figures as a percentage of GDP we have removed from both the GDP data and the resource data entries where there is no data in either category. For example, if Botswana has no FDI data for a particular year, we also remove Botswana's GDP data for that year. This means that the figures show each resource as a percentage of GDP for all the countries/ years that have data. In a few cases, where the resource data is sparse, this means a reduction in the number of countries – we have noted these cases below.

We have compared the 193 member states of the United Nations, leaving out figures for other jurisdictions such as small island dependencies, that are often included in other figures.

Data quality issues

All data is subject to errors in collection and compilation, and much important data may be incomplete or missing. These problems are magnified by the fact that we are taking a global view – examining income categories of countries. In addition, it is true that data is inevitably likely to be of lower quality the poorer the country. We have used data collected by international organisations, mostly the World Bank. However in some cases (ODA and OOFs) we have used OECD data, and for

FDI we have used UNCTAD data, as they are the pre-eminent international organisations collecting data in these specific areas.

It is important to highlight that efforts to avoid and evade tax significantly skew the figures, particularly for private for-profit flows. UNCTAD have made efforts to adjust their FDI figures to account for this, by not including FDI that is routed through special purpose entities (SPEs) – which reaches the recipient country via a third country, and hence is often double counted.¹ The best we can do is to note that this means that figures for FDI, but also probably portfolio investment and private lending, are likely to be over-estimated, possibly significantly.

The following sections detail, for each of the resources:

- The source of the data and what the data measures.
- Any specific limitations that should be taken into account when examining the figures, including issues with double counting (where important, these are noted in short form in the main report.)

B1: Domestic Resources

B1.1 Domestic investment

Source of data + what it measures

The data are “[gross fixed capital formation](#)” taken from the World Bank’s data bank.

“Gross fixed capital formation (formerly gross domestic fixed investment) includes land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. According to the 1993 SNA, net acquisitions of valuables are also considered capital formation. Data are in current U.S. dollars.”

The World Bank also has figures for gross capital formation, which are GFCF plus “plus net changes in the level of inventories” of companies. We prefer GFCF as a measure of domestic investment, as changes in inventories are linked heavily to changes in the business cycle, and therefore give a less good impression of actual productive long-term investment.

Estimating public investment: It is currently difficult to disentangle private GFCF from public GFCF. The World Bank does provide data for GFCF by the private sector, but not in current US dollars (in [local currency units](#)). It also provides [GFCF by the private sector as a percentage of GDP which](#) we have used in the report but the data are for LICs and LMICs only. Therefore to arrive at our figures of public investment as a % of GDP, we have simply subtracted the World Bank’s figures for private GFCF (%GDP) from its overall figures on GFCF (% GDP).

Limitations to note

GFCF does not make a distinction between domestic and foreign sources, meaning that there is double counting between GFCF and FDI (and possibly portfolio equity, though this is less likely). We considered removing the double counting for 2012 by simply deducting the FDI totals from the GFCF totals, but decided against as we would be using two different sources of data (UNCTAD and World

¹ See UNCTAD (2014) *World Investment Report* (Geneva), page 3 for a full explanation.

Bank), and assuming that all FDI would be included in the domestic investment, when portions of it, such as mergers and acquisitions would not. An alternative would be to deduct the reinvested earnings portion of FDI. According to UNCTAD WIR 2013, 40% of FDI in 2012 was reinvestment of earnings – i.e. money earned in the recipient country and reinvested there. This means only 60% that year was new inflows. Unfortunately UNCTAD does not publish this data annually, so we were not able to do this.

Unfortunately, the figures for Public GFCF (%GDP) are likely to be an underestimate – possibly significant – as it is not clear how publicly owned enterprises are treated in the figures. It is not clear if this excludes state-owned enterprises as “private nonprofit agencies” are included.

B1.2 Government revenue

Source of data + what it measures

World Bank databank: [Revenue, excluding grants, % GDP:](#)

“Revenue is cash receipts from taxes, social contributions, and other revenues such as fines, fees, rent, and income from property or sales. Grants are also considered as revenue but are excluded here.”

We used the World Bank’s own calculations for government revenues (which exclude grants, hence avoiding ODA double counting) as a percentage of GDP. We could not use the World Bank’s figures to produce a dollar figure for this however, for the following reason:

- The World Bank only publishes cash figures in local currency units (LCUs) so we had to convert these figures into USD figures, using the [World Bank’s listed exchange rates](#).
- The data is surprisingly scant – in 2012, for example, it was not possible to calculate data for 65 developing countries.
- We therefore did not use these aggregate figures, as they would result in a significant underestimate of the true amount.

Instead, to arrive at current USD figures for the different categories of countries, we have multiplied the World Bank’s figures of GDP for the different categories of country by the government revenue as a percentage of GDP figures for the same categories of countries. We are aware that this is far from perfect, as the sample of countries which the Bank uses to calculate its GDP % figures are a sub-set of the total. However, it is reasonable to assume that the overall percentage figures should not be too far from being the average percentage across all countries of a particular type, so we believe this is the best estimate we can make, using available data.

Limitations to note

ODA and borrowing / lending are not included the data, so in theory there is no double counting of inflows and outflows. There will be some double counting with domestic investment, as government revenue measures income, while investment measures where money is spent, so some of the government income will be invested and included in the domestic investment figures. As noted above, the World Bank’s figures on investment are not sufficiently detailed to estimate the portion that is public investment from government spending, so it is not possible to rectify this.

B2: Domestic resource outflows

B2.1 Illicit financial flows

Source of data + what it measures

Global Financial Integrity (GFI) estimates are the best available for illicit financial flows, available on their [website](#). Their data is based on the addition of two estimates:

- Net errors and omissions from balance of payments data collected by the IMF. These are unexplained discrepancies which cause a country's balance of payments data not to add up (as the BoP is an accounting identity, the net should be zero.) As these have been increasing significantly for developing countries, despite an increase in measurement capacities (which ought to cause errors and omissions to fall) GFI assumes these are largely caused by illicit activities.
- Discrepancies in trade data in the IMF's Direction of Trade Statistics (DOTS), which GFI uses as an estimate of illicit flows channeled through trade misinvoicing. The assumption that these are caused by trade misinvoicing is not inherent in the data, but is based on other GFI research identifying this as a key problem.

Therefore it is an attempt to measure the 'unrecorded' flows out of countries, which, based on their research, GFI records as 'illicit financial flows' – which are either illegally earned, used or transferred.

Our total figures differ from those published by GFI because of a difference in classifying what is a 'developing country'. We use the World Bank income (for reasons noted above), while GFI uses the IMF's. As the IMF list includes some large countries which the World Bank classifies as HICs, such as Russia, our total figures are smaller than GFI's.

Limitations to note

GFI data only reports outflows from developing countries – it does not record inflows, hence we are not able to produce an outflows figure. GFI argues that this is defensible, as IFFs are largely a problem for developing countries.

GFI is attempting to estimate flows that, in origin, transmission or use, break the law. This is an inherently difficult thing to do, for obvious reasons. However, many assumptions made by GFI lead them to believe that their figures represent an under-estimate overall.

It is important to note that these figures do not represent 'tax lost' – instead they are total figures. It is likely that, were IFFs to be taxed at the correct rate, then there would be a tax loss owing to these flows. However the total IFFs can be seen as a loss – as the money could have been used for private domestic consumption and investment.

B2.2 Tax loss to abusive tax avoidance

We provide no data analysis in this section, as no reliable figures are available. The figures for corporate tax rates are taken from [KPMG](#).

B2.3 Foreign lending by government

Source of data + what it measures

To estimate the amount that developing countries lend externally each year, we have used reserves figures – as reserves are largely held in hard currency bonds or similar instruments. We use the World Bank's [Total reserves minus gold](#) (current US\$)

Total reserves minus gold comprise special drawing rights, reserves of IMF members held by the IMF, and holdings of foreign exchange under the control of monetary authorities. Gold holdings are excluded. Data are in current U.S. dollars.

Excluding gold is sensible as it does not represent lending, merely the acquisition of a commodity asset. The other main element that we subtract is an estimate of IMF-related assets (see note below for methodology). This gives us an estimate of reserves likely to be held in hard currencies. This assumes that all non-IMF related reserves represent actual lending (e.g. buying government bonds of developed countries) which will not be the case, as some will be held in banknotes, so the figure will be an overestimate.

Then we calculate the change in reserves between years, to give a figure for increase in reserves (minus gold and IMF-related assets) each year, which provides us with our figure for the amount developing country governments lend to high-income countries each year (all hard currencies are controlled by high-income countries.)

As we don't have country by country breakdowns of these figures – owing to the need to remove IMF-related assets, which are not broken down by country - we cannot do a perfect GDP percentage comparison. We have produced a good estimate, however, by the following method:

- Remove from GDP totals all years (by country) for which there is no reserves figure.
- This means our remaining problems are countries for which there is a reserves figure, but no GDP. However, this is a very small list of only two relatively small economies – Syria and Myanmar, so we are confident that it will not distort the figures significantly.

Note: [estimating IMF-related assets](#):

The IMF publishes aggregate statistics on foreign reserve holdings.² It also provides estimates of the amount of reserves held in IMF related assets. Unfortunately these are only available on an aggregate basis, as the information is considered highly confidential, and, as previously noted, the IMF's definition of "Emerging Market and Developing Countries" contains a number of high-income countries. As we cannot get to a perfect figure, we have use the IMF's aggregate figures,³ accepting that this will overestimate the amount developing countries actually hold in IMF-related assets, and hence reduce our overall figures for lending. However, given the IMF-related assets are a relatively small proportion of the total, this will not greatly affect the accuracy of the figures. The IMF's figures are published in SDRs – to make the conversion, we have used the dollar-SDR exchange rate for 31st December for each year or the nearest available date in the same year⁴ (as the IMF's figures are reported as year end figures.) As we only have a total figure for all EMDs, we have produced figures for sub-categories by assigning the total IMF-related assets proportional to the income categories' proportional share of total increases in reserves for that year.

B2.4 Interest repayments on external debt

Source of data + what it measures

The data, from the World Bank, is [Interest payments on external debt, total](#), in current USD:

² <http://www.imf.org/external/np/sta/cofer/eng/>

³ <http://www.imf.org/external/pubs/ft/ar/2013/eng/pdf/a1.pdf>

⁴ <http://www.imf.org/external/np/fin/ert/GUI/Pages/CountryDataBase.aspx>

“Interest payments are actual amounts of interest paid by the borrower in currency, goods, or services in the year specified. This item includes interest paid on long-term debt, IMF charges, and interest paid on short-term debt. Long-term external debt is defined as debt that has an original or extended maturity of more than one year and that is owed to nonresidents by residents of an economy and repayable in currency, goods, or services. Short-term external debt is defined as debt that has an original maturity of one year or less. Available data permit no distinction between public and private nonguaranteed short-term debt.”

This is the essential complement to the other debt data – totalling the ‘Reverse’ outflows of interest repayments on all debt, public and private, short and long term.

It is assumed to include interest repayments of ODA loans – hence we have not included this ‘reverse flow’ separately, but noted its scale in the text.

B2.5 Repatriated profits

See section B4.1 on FDI.

B3: International public resources

B3.1 Aid & South-South Cooperation (2 pages)

Source of data + what it measures

The data is from the [OECD.Stats database](#), showing:

- Inflow: All donors, all recipients, Country Programmable Aid.

[Country Programmable Aid](#) (CPA) is an important attempt by the OECD DAC statisticians to produce statistics for “the portion of aid donors programme for individual countries, and *over which partner countries could have a significant say*” (emphasis added). According to the DAC “CPA is much closer to capturing the flows of aid that go to the partner countries than the concept of Official Development Assistance (ODA).” It removes from the total figures the following elements, as defined by the OECD DAC:

- (i) unpredictable by nature (humanitarian aid and debt relief);
- (ii) entails no cross-border flows (administrative costs, imputed student costs, promotion of development awareness, and research and refugees in donor countries);
- (iii) does not form part of co-operation agreements between governments (food aid and aid from local governments);
- (iv) is not country programmable by the donor (core funding of NGOs).

The technical definition is available [here](#). As such, it is by far the best data for our purposes, as it removes in advance most of the elements that never leave the donor country. Obviously, it goes further than this, and removes some elements that will result in transfers of resources to the developing country, such as humanitarian aid, and a portion of NGO core funding, so it is not perfect from our perspective, but is far better than the raw ODA data. An alternative would have been to remove the items ourselves from the data, but we did not feel the significant additional work would be warranted, given the existence of the CPA figures.

NB: Our total figure for all developing countries is slightly lower than that provided by the OECD DAC, due to our use of only the 193 members of the UN. The DAC figures include a number of

jurisdictions – including overseas territories of high-income countries (\$115m in 2012), such as Monserrat, and non-UN jurisdictions such as Kosovo – which are not included in our figures.

There is a relatively small amount of CPA each year which the OECD DAC does not allocate to specific countries, but rather to regional spending. This reached \$12 billion in 2008, but fell back to \$6 billion in 2012. We decided against trying to allocate this to the different country groupings, as it was not clear to us that there was any consistent or logical way of doing this. Instead we include this figure in the total for all developing countries. This means that the figures for LICs, LMICs and UMICs will be underestimates, and do not add up to the total figure for all developing countries.

An increasing number of UMICs, and some LMICs give ‘South South cooperation’ to other developing countries. Unfortunately, at present, figures for this are only available on an aggregate basis, so we present those figures. It should be noted that as these flows are going in and out of (different) developing countries, for developing countries as a whole the net flow is zero – meaning that some developing countries (typically UMICs) will have net outflows of SSC, while others will have net inflows.

Limitations to note

“[CPA does not net out loan repayments](#)” meaning that when ODA loans are repaid, it does not reduce the figure (as happens for the ODA figures.) In other words, loans only appear in CPA figures as a net positive – the negative repayment is not included. While this is not ideal, we believe CPA still gives a much better indication of actual resources than ODA.

ODA loans also attract interest, but these repayments are included in the section on interest repayments of external debt, so we have not included them in this section – including them here would be double counting.

Unlike the other data in this report, the source is not the main national statistical collection systems, collated by the IMF, World Bank or UN, but reporting to the OECD DAC by donor countries. The DAC takes considerable care to vet and improve the information sent, but the fact that ODA data comes from the donor rather than the recipient, and is used to measure the extent to which they honour international pledges means it faces a unique set of challenges, as donors can attempt to increase their ODA totals by using loopholes in the definition of ODA, such as the rules on what may be counted as a concessional loan, as [Eurodad research has shown](#). This is another reason for preferring CPA to ODA as a measure – DAC statisticians have taken care to try to overcome many of these inherent problems by devising this measure.

B3.2 Other official flows (OOFs)

Source of data + what it measures

OOFs are an attempt to measure the government to government flows of finance that are not classified as ODA. The data comes from the [OECD’s QWIDs database](#).

“Other Official Flows (OOF): transactions by the official sector whose main objective is other than development-motivated, or, if development-motivated, whose grant element is below the 25 per cent threshold which would make them eligible to be recorded as ODA. The main classes of transactions included here are official export credits, official sector equity and portfolio investment, and debt reorganisation undertaken by the official sector at non-concessional terms (irrespective of the nature or the identity of the original creditor).”

In addition to the above, a portion of OOFs is also made up of loans that do not meet the criteria of concessionality to qualify as ODA loans.

Outflow estimates are not available.

Reverse Flows of interest on loans ought to be included in the figures for repayment of interest. Repayment of capital is included in the figures, as a negative flow – which explains why OOFs are sometimes negative.

Limitations to note

OOFs are not a good reflection of the real scale of non-ODA government to government flows. In reality they are simply flows reported to the OECD DAC which do not meet the ODA definition criteria. Other flows, including finance for military and security purposes are unlikely to be reported to the OECD DAC and therefore do not appear in any official figures. Development Initiatives have made an effort to quantify the value of ‘pro-development’ military and security spending – peace-keeping missions, for example. We have not included these figures here, as most do not reflect a cross border transfer to developing countries. However, no international institution has made a serious effort to fully quantify the ‘non-development’ government to government transfers.

B4: International for-profit private resources

B4.1 FDI & B2.5 Repatriated profits

Source of data + what it measures

The inflows and outflows data comes from [UNCTAD](#):

“Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest in and control by a resident entity in one economy (foreign direct investor or parent enterprise) of an enterprise resident in a different economy (FDI enterprise or affiliate enterprise or foreign affiliate). Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates.

FDI inflows and outflows comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to a FDI enterprise, or capital received by a foreign direct investor from a FDI enterprise. FDI includes the three following components: equity capital, reinvested earnings and intra-company loans. Data on FDI flows are presented on net bases (capital transactions' credits less debits between direct investors and their foreign affiliates). Net decreases in assets or net increases in liabilities are recorded as credits, while net increases in assets or net decreases in liabilities are recorded as debits. Hence, FDI flows with a negative sign indicate that at least one of the three components of FDI is negative and not offset by positive amounts of the remaining components. These are called reverse investment or disinvestment.”

The data for repatriated profits (B2.5), is taken from the World Bank’s [Primary Income on FDI](#):

“Primary income on foreign direct investment covers payments of direct investment income (debit side), which consist of income on equity (dividends, branch profits, and reinvested earnings) and income on the intercompany debt (interest). Data are in current U.S. dollars.”

How this is described is quite confusing, but we understand that it represents profits taken out of a country by foreign investors, not the profits a country makes from its own foreign investments. We

double checked the data to make sure increases in recent years were not caused by expansions to the data set – consistently 70 developing countries reported this data. Because this is significantly fewer than the total number of developing countries, the total figures are under-estimates.

Limitations to note

FDI includes reinvestment of earnings earned by foreign owned companies in the recipient country. This means that they could also be considered as domestic investment as the money is earned in the country itself and does not cross international borders (it is counted as such in the GFCF measure that is the best estimate of domestic investment.) As noted above, we have not deducted FDI from the domestic investment figure, meaning there is double counting.

Given that intra-company loans are included, there is possibly some double-counting with the debt-creating flows data, though, as this is collected on a loan by loan basis by the government, it is likely that most intra-company loans may not be included.

B4.2 Portfolio equity

Source of data + what it measures

The data measures [Portfolio equity, net inflows](#), in current USD:

“Portfolio equity includes net inflows from equity securities other than those recorded as direct investment and including shares, stocks, depository receipts (American or global), and direct purchases of shares in local stock markets by foreign investors.”

“Portfolio equity investment is defined as cross-border transactions and positions involving equity securities, other than those included in direct investment or reserve assets. Equity securities are equity instruments that are negotiable and designed to be traded, usually on organized exchanges or “over the counter.””

“Included in portfolio investment are investment fund shares or units (that is, those issued by investment funds) that are evidenced by securities and that are not reserve assets or direct investment. Although they are negotiable instruments, exchange-traded financial derivatives are not included in portfolio investment because they are in their own category.”

The cut off between portfolio equity and FDI is normally 10% ownership of the company, though this is arbitrary, and it could be argued that a higher level – which would increase portfolio equity figures at the expense of FDI figures – might be a more accurate reflection of the level of control that foreign investors have over the company invested in.

The World Bank also records [Portfolio Equity, net](#), though its description is very sparse,⁵ so we have not used this.

⁵ “Portfolio investment covers transactions in equity securities and debt securities.

Note: Data are based on the sixth edition of the IMF's Balance of Payments Manual (BPM6) and are only available from 2005 onwards. In BPM6, the headings of the financial account have been changed from credits and debits to net acquisition of financial assets and net incurrence of liabilities; i.e., all changes due to credit and debit entries are recorded on a net basis separately for financial assets and liabilities. Financial account balances are calculated as the change in assets minus the change in liabilities; signs are reversed from previous editions.”

The data is 'net' only in the sense that it includes both purchases and sales of stocks and shares, and hence reflects the extent to which foreign investors increased their holdings of developing country equities.

B5 International not for profit private flows

B5.1 Charitable flows

Source of data + what it measures

The data is from the OECD DAC QWIDS database. It measures '[net private grants](#)':

“Grants by national NGOs and other private sources, including foundations and other private bodies, for development assistance and relief, together with any additional contributions in kind, made to or for developing countries, multilateral organisations (e.g. proceeds to UNICEF from Christmas card sales), special appeals (e.g. for disaster relief), or international non-governmental organisations. Includes expenditures in the donor country undertaken for development or relief purposes (e.g. subsidies by voluntary agencies to students and trainees from developing countries, welcome services, etc.).”

Similar expenditure which is already included in ODA figures (when governments give money to NGOs, for example) is removed from the figures.

Limitations to note

The data is very limited:

- It is on a donor basis, not a recipient basis, and includes in-donor expenditure, such as *“subsidies by voluntary agencies to students and trainees from developing countries”* so is not a measure of actual transfers.
- There is no measurement of outflows – i.e. charitable donations from developing countries to other countries – though this is likely to be small.
- There is also no measurement of Reverse Flows (where inflows lead to a corresponding outflow e.g. because of repayment of a loan), though these are unlikely to be large.

B5.2 Remittances (1.5 page)

Source of data + what it measures

The data, from the World Bank, is [Personal remittances, received](#):

“Personal remittances comprise personal transfers and compensation of employees. Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households. Personal transfers thus include all current transfers between resident and nonresident individuals. Compensation of employees refers to the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by nonresident entities. Data are the sum of two items defined in the sixth edition of the IMF's Balance of Payments Manual: personal transfers and compensation of employees. Data are in current U.S. dollars.”

No information is available on Reverse Flows, but it is assumed that these will be very small, as the purpose of remittances is normally to support family or investments at home, rather than invest to earn income to be transferred abroad.

The main factor that is not included in these figures is the amount that is lost during the transfer of remittances. In addition, it is important to note that remittances are inherently difficult to estimate as much flow through informal channels.

It is assumed that there is no significant double counting of remittance flows.

B6: International debt-creating flows

B6.1 External borrowing, public, long term

Source of data + what it measures

The data, from the World Bank, is [Net flows on external debt, public and publicly guaranteed](#), in current USD:

“Public and publicly guaranteed long-term debt are aggregated. Public debt is an external obligation of a public debtor, including the national government, a political subdivision (or an agency of either), and autonomous public bodies. Publicly guaranteed debt is an external obligation of a private debtor that is guaranteed for repayment by a public entity. Net flows (or net lending or net disbursements) received by the borrower during the year are disbursements minus principal repayments. Long-term external debt is defined as debt that has an original or extended maturity of more than one year and that is owed to nonresidents by residents of an economy and repayable in currency, goods, or services. Data are in current U.S. dollars.”

The data already nets out repayment of principal. Repayments of interest are covered in section B2.4.

Limitations to note

There is likely to be some double counting with OOF loans. However, as the OOF data is far less reliable than the borrowing data, and because OOF loans are a relatively small amount, we have not attempted to correct for this, but simply note it.

B6.2 External borrowing, private, long term

Source of data + what it measures

The data is from the World Bank: [Net flows on external debt, private nonguaranteed](#) (current US\$)

“Private nonguaranteed external debt is an external obligation of a private debtor that is not guaranteed for repayment by a public entity. Net flows (or net lending or net disbursements) received by the borrower during the year are disbursements minus principal repayments. Long-term external debt is defined as debt that has an original or extended maturity of more than one year and that is owed to nonresidents by residents of an economy and repayable in currency, goods, or services. Data are in current U.S. dollars.”

The data already nets out repayment of principal. Repayments of interest are covered in section B2.4.

B6.3 Foreign borrowing –short term (public & private)

Source of data + what it measures

The data, from the World Bank is [Net flows on external debt, short-term](#), in current USD:

- *“Net flows (or net lending or net disbursements) received by the borrower during the year are disbursements minus principal repayments. Short-term external debt is defined as debt that has an original maturity of one year or less. Available data permit no distinction between public and private nonguaranteed short-term debt.”*

The data already nets out repayment of principal. Repayments of interest are covered in section B2.4.

Improvements for future reports

The following are a list of issues we will consider improving for future reports. Additional ideas can be emailed to [jgriffiths\[at\]Eurodad.org](mailto:jgriffiths[at]Eurodad.org).

- Overall, separating flows which are public flows or have a development purpose from private or profit flows will be important.
- Estimating Development Finance Institutions lending – this is likely to have cross over with existing categories.
- Attempting to calculate the amount of tax lost due to illicit financial flows.
- Domestic resources require further examination:
 - To ascertain if it is possible to remove elements of double counting, such as between FDI and domestic investment.
 - To better separate public and private investment figures.
 - To consider examining alternative definitions of investment (some argue that education expenditure should be included).
- To improve the information on debt-creating flows:
 - Include better data on domestic debt, and the foreign vs domestic currency denomination of all debt.
 - To [separate](#) public from private interest repayments.
 - TO provide separate estimates for repayments of interest on ODA loans.
- Examining changes in assets, as well as flows, including natural resource assets. This will be particularly important for resource rich countries.