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Capital flight from sub-Saharan Africa: linkages with external borrowing and policy options

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Abstract

Even as capital flight from sub-Saharan Africa has increased, the political and economic environment in the region has become more favorable. From 33 countries, 19 have determined to reduce capital flight from sub-Saharan Africa. Private capital flight from sub-Saharan Africa has amounted to \$195 billion. In this period, the findings t

large-scale capital flight and its impact on the region's economic growth. The results also show a debt-overhang effect, as increases in the debt stock spur additional capital

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flight in later years. In addition to policies for recovery of looted wealth and repatriation of externally held assets, we discuss the need for policies to differentiate between legitimate and odious debts, both to ease current burdens on African countries and to improve international financial governance in the future.

Keywords: capital flight external debt stolen assets odious debt

JEL Classifications: F21 F33 F34 F35 H26 O16 O24

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Notes

1. For discussion see Lessard and Williams
2. Boyce 1996 for a period 1970-96 for a period, we use working
3. Of course, for this reason, the opportunity cost of capital is high. By

counting imputed interest earnings, we obtain a measure that is comparable to the external debt stock, since the latter includes interest arrears and debt contracted to service previous debt.

4. The study by Hermes and Lensink ([1992](#)) covers six countries (Congo-Zaire, the Ivory Coast, Nigeria, Sudan, Tanzania and Uganda) over the period 1976 to 1989. They used the somewhat narrower 'non-bank' definition of capital flight proposed by Morgan Guaranty Trust ([1986](#)), which excludes assets held abroad by domestic banks.

5. For a more extensive review, see Ndikumana and Boyce ([2003](#)).

6. Kahn ([1991](#), iv) suggests that in the South African case, in some periods 'the need to finance capital flight might account for all the accumulation of external debt'.

7. Predicted inflation is obtained from a linear regression of inflation on time.

8. 'Fuel exports' consist of 'mineral fuels' (SITC Section 3) as reported in the World Bank Africa Database (World Bank [2006b](#)) (and World Development Indicators [World Bank [2006c](#)]).

9. As a proxy of governance we used the Polity2 index from Polity IV Project's database which ranges from -10 (strongly autocratic) to +10 (strongly democratic).

10. We also experimented with various measures of natural resource endowment, including the share of various natural resources in total exports as well as a dummy taking the value of one if the share of natural resources in total exports is greater than 75% and zero otherwise. This measure is highly correlated with the dummy

11. Against the backdrop of the differences in the sample show that capital flight is the most autocrat

12. The [2007](#)).

13. This measure of capital flight and foreign variables of the two



14. A good example is the case of debt issued to the apartheid regime in South Africa which was used to consolidate the oppressive regime. See Walker and Nattrass ([2002](#)) for a discussion of the South African case.

15. For discussion, see Jochnick ([2006](#)) and Buchheit, Gulati, and Thompson ([2007](#)).

16. Referring to domestic law, Buchheit, Gulati, and Thompson ([2007](#), 1252) write: 'We believe that governmental corruption in some countries is so suffocatingly ubiquitous that a U.S. court could legitimately shift onto the plaintiff [i.e., a creditor seeking redress for non-repayment] the burden of showing that a particular transaction was not tainted by corruption.... Against a showing of pervasive corruption, is it unreasonable to ask the plaintiff/lender to explain how it alone had managed to preserve its virtue in dealing with the corrupt regime?'

17. For discussion, see Hoeflich ([1982](#)) and Ndikumana and Boyce ([1998](#)).

18. Howse ([2007](#), 15); for discussion, see also Buchheit, Gulati, and Thompson ([2007](#)).

19. The Norwegian government has called for the creation of an 'international debt settlement court' for this purpose. See the Soria Moria Declaration on International Policy, October 2005, available at <http://www.dna.no/index.gan?id=47619&subid=0>. In making a case for an ex ante instead of ex post odious debt strategy, Jayachandran and Kremer ([2006](#), 83) express the worry that 'any adjudicating body that had the power to declare debt void might nullify legitimate debt if it placed a high value on the welfare of the debtor country', thereby shutting down access to legitimate loans and presumably harming the country. But actions yielding this result would seem to be a rather perverse form of

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