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

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finding that suggests the existence of widespread debt-fueled capital flight. The results

also show a debt-overhang effect, as increases in the debt stock spur additional capital 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 of the literature on capital flight, see Lessard and Williams (2007).
2. Boix (2006) uses a similar measure of capital flight for the period 1970–1996 for a sample of 100 countries. In his paper, he uses a similar algorithm for debt adjustment, but he uses a different algorithm for working capital. For this reason, the cumulative debt repayment ratio is a better measure of
3. Of course, the cumulative debt repayment ratio is a better measure of



the opportunity cost of capital flight rather than assets actually available today. 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 to 10.

10. We also control for a number of variables, including a dummy variable for the year 2007, taking the value 1 if the year is 2007 and 0 otherwise. We also control for a dummy variable for the year 2007, taking the value 1 if the year is 2007 and 0 otherwise. We also control for a dummy variable for the year 2007, taking the value 1 if the year is 2007 and 0 otherwise.

11. Against this background, we expect to find a positive relationship between the polity index and capital flight. The results show that the most autocratic countries are the ones with the highest capital flight.

12. These results are robust to a number of alternative specifications ([2007](#)).

13. This result is also robust to a number of alternative measures of capital flight and foreign assets. The coefficient on the polity index is 0.08 (significant at 10% level).



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 (2005) argue that the power to declare the debt odious is in the hands of the welfare of the debtors, presumably harming them in a more perverse form of the



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