International Review of Applied Economics ›
Volume 25, 2011 - Issue 2

Original Articles

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

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Pages 149-170 | Published online: 09 May 2011

Cite this article https://doi.org/10.1080/02692171.2010.483468

Abstract

Even as ... large-scale capital f... ic and political ... afer havens abroad. ... capital flight from 33 ... its determi... that sub-Saha... ment's private ... ht amounte... of $195 billion. E... to Africa in this peri... ear, a finding t... 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

Acknowledgements

An earlier version of this paper was presented at the Senior Policy Seminar on “Capital Flight from Sub-Saharan Africa: Implications for Macroeconomic Management and Growth”, jointly organized by the Association of African Central Bank Governors, the Reserve Bank of South Africa, and the World Bank, in collaboration with the African Development Bank, the International Monetary Fund, and the Bank of England, 30 October – 2 November, 2007 Pretoria, South Africa. We are grateful to the seminar participants for valuable comments and suggestions. We also thank two anonymous referees for constructive comments and suggestions.

Notes

1. For di … see Lessard and Willi …

2. Boyce … riod 1970–96 for a … nd this period, … adjustments for d … algorithm we use … in a working …

3. Of co … tion. For this reason, … measure of the oppo… day. 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-Zaïre, 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

11. Agai ences in the polity in nple show that cap he most autocrat

12. T 07).

13. This sure of capital f ital flight and fore f the two variable

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 ... her perverse form of f

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The r ... rom five SSA countries

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Capital Flight from Burkina Faso

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Causes and Effects of Capital Flight from Africa

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