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Abstract

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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 debt overhang hypothesis, see Lessard and Williamson (1989).
2. Boyce (1994) estimates that the average real GDP growth rate for a sample of 100 African countries from the period 1970–1996 for a sample of 100 African countries was 2.5% and this rate was significantly lower than the 4.5% average adjustments for debt service payments.

we use to compute capital flight and a dataset on annual flows are provided in a working paper available from the authors.

3. Of course, some of Africa's flight capital has been dissipated in consumption. For this reason, the cumulative stock reported in Table 1 can best be regarded as a 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 (Africa Development Bank, 2006c)].

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12. These data are published by the Bank for International Settlements ([2007](#)).

13. This proxy of capital flight is positively correlated with our broader measure of capital flight. The correlation coefficient (using the panel data) between capital flight and foreign bank liabilities is 0.33 (significant at 1% level); the correlation of the two variables as ratios of GDP 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](#)).
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Congo's Odious Debt: External Borrowing and Capital Flight in Zaire

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