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How Capital Flight Drains Africa: Stolen Money and Lost Lives

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In most financial scams, the victims simply lose their money. In Africa, some lose their lives.

Sub-Saharan Africa experienced an exodus of more than \$700 billion in capital flight since 1970, a sum that far surpasses the region's external debt outstanding of roughly \$175 billion. Some of the money wound up in private accounts at the same banks that were making loans to African governments.

Inflows of foreign borrowing and outflows of capital flight are closely intertwined. As we document in [Africa's Odious Debts](#), there is a strong correlation between the two. For every dollar of foreign borrowing, on average more than 50 cents leaves the borrower country in the same year. This tight relationship suggests that Africa's public external debts and private external assets are connected by a financial revolving door.

How does it work? Common mechanisms include inflated procurement contracts for goods and services, kickbacks to government officials, and diversion of public funds into the bank accounts of politically influential individuals. Some of Africa's flight capital comes from other sources, too, such as earnings from oil and mineral exports. But foreign loans make an exceptionally easy mark in that there is no need to bother with the messy business of extracting natural resources to convert them into cash.

Principals and agents

The history of finance is littered with examples of the hazards of lending other people's money and borrowing in other people's names. In theory, bankers are meant to serve the interests of their depositors and shareholders by making prudent loans that will be repaid with interest. In practice, however, they often are rewarded above all for "moving the money," getting loans out the door. In the wake of the U.S. financial crisis, this issue belatedly began to attract attention at the [U.S. Fed](#).

An analogous principal-agent problem operates on the borrower side, where government officials negotiate and disburse loans on behalf of their citizens. Some borrow in the name of the government, line their pockets and those of their cronies, and saddle the public with the debt.

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When a fraction of foreign borrowing is siphoned abroad, Africa still receives an inflow of money, albeit less than the face value of the debt. The net drain comes in subsequent years when the creditors are repaid with interest.

Using [World Bank data](#), we estimate that each additional dollar of external debt service means that 29 fewer cents are spent on public health, and that each \$40,000 reduction in health expenditure translates into one additional infant death. Putting these together, we calculate that debt-service payments on loans that fueled capital flight translate into more than 75,000 extra infant deaths annually. It is not only money that is being stolen in Africa: it is human lives.

What is to be done?

The hemorrhage of scarce resources from Africa can be curbed. Efforts by some African governments to recover wealth stolen by past officials have won international backing in the [Stolen Asset Recovery Initiative](#) launched by the World Bank and United Nations Office on Drugs and Crime. More can and should be done to identify looters and their accomplices and to repatriate stolen funds.

Tougher anti-money laundering laws and enforcement are needed to staunch the illicit financial flows from Africa into [safe havens](#) abroad. In the United States, [Treasury Department officials concede](#) that banks routinely accept deposits of funds that enter the country in violation of existing laws. Moreover, the banks currently are not prohibited from handling proceeds from many activities, such as tax evasion, that would be considered crimes if committed within the U.S.

More transparent information about financial inflows to African governments would also help. Much as the [Publish What You Pay](#) campaign launched by international NGOs promotes disclosure of corporate payments for natural resource extraction, a Publish What You Lend campaign could strengthen transparency and accountability in financial markets.

Last but not least, African governments should be encouraged to selectively repudiate debts incurred by past regimes that cannot be shown to have been used for legitimate purposes. The doctrine of [odious debt](#) in international law provides a basis for repudiation of debts from which the public derived no benefit, when creditors knew or should have known this to be the case. Added legal grounds for selective repudiation are found in the principle of [domestic agency](#) in British and American law, which requires agents to act in good faith in the interest of their principals.

These steps would not only benefit Africa's people today. They also would help to repair our dysfunctional international financial architecture, strengthening incentives for the exercise of due diligence by creditors and for responsible borrowing by governments. Without these changes, debt relief can offer only a temporary palliative. In the world of international finance, Africa needs justice, not just charity.