

CAPITAL FLIGHT AND ECONOMIC DEVELOPMENT IN AFRICA*

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ABSTRACT

This paper takes a broad approach to the analyses and implications of capital flight for economic growth and development in Africa. It provides an overview of why capital flight constrains and undermines economic growth and development in Africa because of the resource gap which it exacerbates. Capital flight undermines domestic resource mobilization effort, reduces private domestic investment, and reduces the tax base, and thus brings about reduced public investment and social services. The analysis draws on a distinction between economic growth and development. In drawing out the distinction, the analysis goes beyond economic growth and covers the deeper issues of social development (wellbeing of citizens) as measured by the Human Development Index, and economic transformation. The paper deals with the issues of poverty and inequality. In addition the paper pushes the analysis to the implications of capital flight for developmental policy. Addressed in the paper also are issues of the quality of public finance and the absorptive capacity of a country in the event of reduced capital flight/ and capital flight repatriation and its implications for resource management and attainment of developmental objectives. Considered in particular with respect to absorptive capacity are macro-economic, institutional and policy, technical and managerial constraints.

Key Words: Capital flight; Africa; sub-Saharan Africa; economic development; domestic investment; absorptive capacity.

JEL Classifications: G11; O16; O55

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1. Introduction

The problems associated with capital flight in developing countries, and especially in sub-Saharan Africa (SSA) have refused to go away. Indeed, there is evidence that new havens for capital flight are increasing rapidly around the world providing inducements that those engaged in it have found irresistible¹. As the issues associated with the need for resources for development has continued to gain more prominence in view of the lessons from the global financial and economic crisis, the need for domestic resource mobilization to achieve economic development as well as global developmental goals has come to the front burner of public policy. Indeed, capital flight from Africa has recently been put at the forefront of the development policy debate. Given the economic turbulence that a number of European countries have gone through in recent times, the amount of resources that may arise from these countries may continue to dwindle. There is an increasing need for the mobilization of domestic resources. The issue of stemming capital flight has thus assumed a new dimension as an important element in public policy debate primarily because of its huge resource inflow implications. It has been shown that as long as capital flight continues “efforts to reduce poverty and boost economic growth will be thwarted” (GFI, 2008, p.17).

In spite of the recent growth experience of many African countries in recent times, quite a number of them still experience large capital flight. The latest estimates of capital flight for 33 sub-Saharan African countries show that it lost a total of \$814 billion (constant 2010 US \$) between 1970 and 2010 (See Boyce and Ndikumana, 2012). This amount exceeds official development aid of \$659 billion and FDI of \$306 billion for the same period. Incidentally, the

¹ According to Christensen (2009), the number of tax havens and the scale of offshore economy has increased dramatically since the period of the late 1970s. One study enumerated 32 tax havens in 1977. The research conducted in 2005 estimated 72 and the number continues to rise.

rise in capital flight coincides with rise in oil prices in some of the important oil-producing countries. It is the financing gap which SSA suffers partly as a result of capital flight that is hindering total investment and social services delivery in the sub-continent. The worry about capital flight therefore centers on what it does to the economy². Capital flight undermines investment and hence economic growth and sustainable development. It undermines government revenue, social expenditure and meeting the Millennium Development Goals (MDGs) targets. It also undermines a fair distribution of wealth, governance in both the public and private sector; and the development of systems of accountability and a vibrant economy.

The sustainable development of a country can be realized if it is able to mobilize and retain sufficient resources within its domestic economy. These resources are needed for spending on programs and activities that are capable of increasing the welfare of its citizens. Additionally, the resources lost to capital flight are important among other things for investment to help increase the stock of productive capital. Capital flight has been known to thwart economic development, foster corruption, in particular, in countries with mineral extraction and deepens inequality. Realizing the continued importance of capital flight to developing countries' development in terms of its resource envelope and the need to promote growth, sustainable development and eradicate poverty, the United Nations General Assembly stated in 2005 World Summit Outcome resolved "to support efforts to reduce capital flight and measures to curb the illicit transfer of funds"³

The main objective of this paper is to discuss why we (*still*) care about capital flight from African countries. The paper puts the issue of capital flight within the broader context of

² See Kapoor (2010)

³ See item 24 (e) of the United Nations General Assembly Sixtieth Session Agenda items 46 and 120, 60/1. 2005 World Summit Outcome, p.7.

development financing, growth and social development. It underscores the fact that capital flight undermines the continent's efforts to attain developmental goals including the MDGs and analyzes the effects of capital flight on human development. The paper also discusses non-economic implications of capital flight including on equity and political stability.

In writing this paper, no attempt is made to reinvent the wheel. The paper therefore aims at providing a general framework that can be used to further analyze the several issues connected with capital flight by laying bare the empirical evidence in the different areas covered. Some of the issues that are discussed here are dealt with exhaustively in other chapters in Ajayi and Ndikumana (2014).

The organization of the papers is as follows. Section 2 discusses briefly the magnitude of capital flight in order to underscore its developmental importance. The contextual issue of capital flight, economic growth and development is the theme of section 3. The section examines what the early literature focused upon and if there is any difference now. The section also discusses why we should be concerned about capital flight. In section 4, the investment growth controversy is analyzed along with the transmission mechanism from capital flight to growth and economic development. The theme of section 5 is capital flight, human development and the Millennium Development Goals. It analyzes the MDGs and its accomplishment in SSA and discusses the resource gaps and its relation to capital flight. Section 6 deals briefly with the effect of capital flight on poverty and draws from the analysis of AfDB et al. (2012)⁴. It also discusses two important conditions that must be met before the MDGs can be satisfied. Section 7 discusses the

⁴ Detailed analysis of the 'Potential effect of capital flight on the Rate of Poverty Reduction in Africa' by Nkurunziza (2014).

issues of the quality of public finance management and its implications for resource management while section 8 contains the summary and conclusions.

2. The Magnitude of Capital flight

Over the last two decades, there have been various estimates of capital flight in Africa using different methodologies. The estimates are for either the whole of Africa or components of it (SSA, anglophone and francophone countries). Some specific country estimates include Ajayi (1992, 1997), and Collier et al (2000, 2004). Other specific country studies can be found in Ajayi and Khan (2000). Other studies that cover specifically the heavily-indebted poor countries of Africa include that of Ajayi (1997) which covers the severely indebted low-income countries referred to as SILICS.

There are so many estimates of the amount of capital flight as illustrated by the Eurodad fact sheet (Eurodad, 2008):

- (i) More than \$13 billion per year have flown from the African continent between 1991 and 2004. This represents 7.6 percent of the annual GDP of the region.
- (ii) More than \$150 billion/year flies out of Africa, of which 80% finds its way to offshore financial centers. About 30 percent of sub-Saharan Africa's annual GDP has been moved to secretive tax havens.
- (iii) Illicit money in circulation is estimated at \$1000-\$1, 600 billion out of which 50% comes from Southern countries. .
- (iv) Real capital flight from 40 African countries between 1970 and 2004 amounted to about \$420 billion. Including imputed interest earnings, the accumulated stock of

capital flight was about \$607 billion at the end of 2004. Some 17 countries in SSA have lost in excess of 100 percent of GDP since 1970 (Boyce and Ndikumana, 2012)⁵.

One of the most comprehensive analyses of the estimates of capital flight is that of Boyce and Ndikumana (2012). The group of 33 SSA countries lost a total of \$814 billion (constant US \$) from 1970-2010. Considering the external liabilities, the region is a 'net creditor' to the rest of the world. There is no doubt as elsewhere that there are lots of disagreements on what to include as capital flight in Africa. While the measurement of capital flight is not error-free, what is clear and indisputable is that there is capital flight in many African countries with many magnitudes being canvassed.

3. Impact of Capital flight on Economic Growth and Development in Africa.

The starting point for this section is to define economic growth and development and show in as much as possible the distinction between them. Economic growth is a concept that is narrower than economic development, even though both concepts are often erroneously used interchangeably. There is a big difference between the two. Economic growth, which is a general increase in the country's products and services output, is a factor of economic development. Economic development refers to quantitative and qualitative changes in an existing economy. It involves the development of human capital, increasing the literacy ratio, improving infrastructure, improvement in health as well as safety and other areas, the aim of which is to

⁵ The study of capital flight can be likened to fishing in "muddled water." The calculation of capital flight is difficult because the various groups and individuals "are unlikely to make a point of informing the compilers of the balance of payment statistics of their action." It involves serious statistical detective work (see Ajayi, 1992).

increase the general welfare of the citizens. Economic growth is, therefore, a necessary but not a sufficient condition for economic development.

There are a variety of indicators generally used by economists to measure the level of economic development. These include:

- Declining poverty rates
- Declining infant mortality
- Increasing life expectancy

The scope of economic development includes the process and policies by which a nation improves the economic, political and social wellbeing of its people. Economic development therefore leads to the creation of more opportunities in the sectors of education, health, and human development, to name a few. It also implies an increase in the per capita income of every citizen. Economic development therefore relates to the improvement in the human capital indicators, a reduction in inequality and structural changes that improve the quality of life of the citizens.

Nordhaus and Tobin (1972) highlighted the fact that gross domestic product (GDP) is not a measure of welfare, and proposed a Measure of Economic Welfare (MEW), which adds to the gross national product (GNP) the value of households services and leisure, subtracts the cost of capital consumption and “bads” such as pollution and corruption. The best known measure of human living conditions is the United Nations Human Development Index (HDI). The index combines the level of life expectancy, education, and GDP to measure human development. What is clear is that economic growth alone does not automatically translate into progress in human development. Pro-poor policies and significant investments in people’s capabilities –

through a focus on education, nutrition, health and employment skills – can expand access to decent work and facilitate sustained progress (UNDP, 2013, P. IV).

There are other measures of human living conditions, some of which do not cover Africa. A comprehensive measure of human living conditions is the Weighted Index of Social Progress (WISP). This index captures many dimensions of well-being including income, education, health, role of women, environment, peace, diversity and welfare.

Dissatisfied with the present state of statistical information about the economy and the society, the former president of France, Nicholas Sarkozy, asked Joseph Stiglitz, Amartya Sen, and Jean Paul Fitoussi to create a Commission which was subsequently called “the Commission on the Measurement of Economic Performance and Social Progress (CMEPSP)”. The Commission’s aim was to identify the limit of GDP as an indicator of economic performance and social progress, including problems of its measurement and to consider what additional information might be required for the production of more relevant indicators of social progress and to assess the feasibility of alternative measurement tools, and to discuss how to present statistical information in an appropriate way. One of the indicators that the commission came up with is that of “well-being” of society.

In order to define well-being, a multi-dimensional definition is utilized. The commission has identified the following dimensions which should be taken into account simultaneously (Stiglitz et al., 2008):

- Material living standards.
- Health.
- Education.

- Personal activities including work.
- Political voice and governance.
- Social connections and relationships.
- Environment.
- Insecurity of an economic as well as a physical nature.

The assessment of the impact of capital flight on economic growth and/or economic development is not by any means easy. The effect is often seen through direct channels such as foregone investment in some critical areas of the economy such as on poverty reducing programs on health, education and job creation etc., or through indirect channels such as low investment and its resulting effects on income (Nkurunziza, 2012).

What really is the debate about capital flight, growth and development in Africa? Do we have enough evidence as to the transmission mechanism from capital flight to growth and hence economic development? A lot can be borrowed from earlier literature on capital flight if only to underscore the fact that the arguments have basically remained the same. Essentially, early literature on capital flight focuses on investment and hence growth because it enhances resident welfare, enlarges the pool of available resources for satisfying constituent demands, and enables governments to fulfill external debt obligations. This basic motive is expressed by Depler and Williamson (1987, p.52):

The fundamental economic concern about capital flight, however, is that it reduces welfare in the sense that it leads to a net loss in the total real resources available to an economy for investment and growth. That is, capital flight is viewed as a diversion of domestic saving away from financing domestic real investment. As a result, the pace of

growth and development of the economy is retarded from what it otherwise would have been.

In the conclusion to *Capital Flight and Third World Debt*, Lessard and Williamson (1987, p. 224) argue that capital flight implies at least a one-for-one reduction in domestic investment:

Thus, the best case involves a reduction in the savings to finance domestic investment, of a magnitude essentially equal to the size of capital flight. Future growth will in consequence be lower. The worst case involves a reduction not just in future growth possibilities but also in the current level of output, by some multiple of the size of capital flight.

The recent worry about capital flight is really prefixed on three old major issues. These are capital scarcity, fiscal and political constraint and the limited access to international financing (See Gordon and Levine, 1988).

Why is it that capital flight is considered a phenomenon that should be avoided? A better way of posing the question is to ask what are the negative consequences of capital flight? These are summarized in Ajayi (1997) as:

- (i) Reduction of growth potential.
- (ii) Erosion of the tax base, and
- (iii) Adverse redistribution consequences.

The reduction of growth potential arises from the fact that money that is transferred abroad is potential investment that is lost to the country. Additionally, the money could have been used to import essential equipment and material needed for the growth of domestic industry and the economy. With this, the import constraint on growth could have been relaxed (Pastor, 1990). In

essence, “the basic elementary argument is that when capital flees a country, that amount of money is potentially lost as investment in productive activity. This would have earned foreign exchange if such investments were made in the tradable sector of the economy and generate through the multiplier effect the necessary growth in the economy” (Ajayi, 2003 p. 133). It must also be said that the draining of valuable resources widens the resource gaps faced by these countries and makes them dependent on foreign aid or other foreign assistance. The deepening of resource gap also slows down capital accumulation and long run economic growth.

The potential additional output that is lost to the economy can be obtained as the product of capital flight and the reciprocal of the incremental capital-output ratio (ICOR). This is the year-on-year potential output attributed to capital flight. In fact, capital flight would have provided a stream of output over the years if invested in the domestic economy. Thus, what should be calculated are the accumulated increases in output over time for each year after adjusting for depreciation. In this way, the output in succeeding years is not as high as the first year.

The erosion of the tax base arises from the fact that income and wealth that are generated abroad are outside the purview of domestic tax authorities and cannot, therefore, be taxed. Capital flight therefore frustrates domestic resource mobilization. Additionally, it can also fuel more external borrowing and more capital flight. The adverse consequences arise from the fact that when austerity measures are imposed because of hard economic conditions arising from the inter-linkages between capital flight and external indebtedness, the less well-off citizens suffer more and have no cushion on which to rely. It has been claimed that by draining government revenue and retarding growth, capital flight undermines the attainment of the poverty agenda for Africa. In a recent paper, Ndikumana and Boyce (2011) rehearsed these concerns in a different way to highlight why we need to worry about capital flight. First, capital flight constitutes a diversion of

scarce resources away from domestic investment and productive activities. From available statistics, African countries have achieved lower investment levels than other developing countries.

Second, we need to worry about capital flight because of its pronounced regressive effects on the distribution of wealth in the economy. Capital flight deepens inequality. Usually, those who engage in capital flight are members of the subcontinent who inevitably belong to the economic and political elite who take advantage of their most privileged offices to siphon money abroad illegally. According to AfDB et al (2012), almost all the people engaging in capital flight in Africa are among the richest 10 percent of the population. The resulting negative effects of the actions in terms of falling revenue and foreign exchange are disproportionately felt among the various classes of the society with the less wealthy and less privileged feeling the impact most. The regressive impact of capital flight is worsened when the possible financial imbalances result in devaluation. The wealthy who own external assets are insulated from the effects while the poor who have no such external assets have no cushion against the resulting shocks.

The third reason for paying attention to Africa's capital flight is because many African countries remain in the grip of severe external indebtedness with external debt service constituting a significant share of GDP.

In recent times, additional adverse effects of capital flight have been highlighted. Capital flight is known to hurt competition in the free market, because the companies that pay taxes and honor other social responsibilities are at a disadvantage relative to those who benefit from capital flight. Usually, big multinational companies are able to hire expensive lawyers because of the resources available to them and are able to engage in illicit behavior without getting caught. As a result,

capital flight can be a threat to the survival of small and medium sized companies at the national level, as well as multinationals that report their financial transactions and pay the right amount of tax (Froberg and Waris, 2011).

4. The Investment Growth Controversy

The rate of output change can be affected by several factors. The key factors are the rate of investment, increase in the size of the workforce and changes in economic policies (Basu et al., 200). That investment is a source of growth and development is hardly contestable. It is known that countries that have grown rapidly are those that have invested a significant proportion of their GDP. Indeed, the effect of an increase in the private investment-GDP ratio on economic growth is known to be large and statistically significant (Basu et al., 2000).

It is well known from the growth literature is that investment is an important determinant of economic growth. The effect of investment on growth is robust and the results hold also for sub-Saharan African countries. One of the explanations that is often cited for the underdevelopment of Africa is the lack of capital needed for investment. The general argument is the following (Asiedu et al., 2012):

- (i) Africa has a resource gap that is, the capital available for investment is less than the capital required to invest in order to ensure sustainable growth;
- (ii) Africa has to fill the resource gap in order to achieve long term development; and
- (iii) Africa will have to depend on external capital to fill the resource gap.

The importance attached to external capital as a solution to African developmental problems is also stressed in the Millennium Development Goal (MDG) and the framework paper of the New Partnership for African Development (NEPAD).

A remarkable consensus which emerged during the first decade of the 21st century was the need for the wealthy countries of the world to assist developing countries. At Monterrey, Mexico in 2002, the world leaders committed to a substantial increase in assistance to developing countries to achieve internationally agreed development goals and objectives. The commitment was affirmed three years later in Gleneagles in 2005 and in Doha in 2008. At the end of the day, the increased resources still fell far short of what was promised by the developed world, and what many believe poor countries need in order for them to escape the scourge of poverty.

Just as the world was bemoaning this deficiency, reports abounded about the significant amount of capital flows from the developing world and from Africa in particular. The implications of these reports were not lost on those looking for ways to address and fill the development finance gap. Indeed, if the significant amount of capital flows can be curtailed, it holds significant promise for filling the gap. Capital flight is seen as the culprit because it exacerbates Africa's resource gap.

Africa's economic growth over the past decade has been robust (AfDB et al., 2012). An examination of the existing data shows that since 2000, economic performance has been impressive averaging more than 5 percent per year. Average annual growth in Sub-Saharan Africa was especially higher at 5.6 percent. The world economy since 2008 has undergone significant strain which impacted on growth across all the regions of the world. In the midst of all the vicissitudes of the global economic and financial crises, Africa has been resilient. In the period of the great global uncertainty (2008-2011), African economies grew by more than 4 percent – a rate higher than Latin America and the Caribbean (3.4 percent) and Europe and Central Asia (0.2 percent). Africa's growth rate was, however, about half of the growth rate in East Asia and the Pacific (8.5 percent).

Table 1 shows sub-Saharan Africa's real GDP growth over the period 2004-2014. In the period 2004-2008, the growth in real GDP was 6.4 percent. In 2010, 2011, 2012 and 2013, it was 5.4 percent, 5.3 percent, 5.1 percent and 5.4 percent, respectively. It is expected that the real GDP growth rate will be 5.7 percent in 2014. When the continent is broken down into oil-exporting countries and middle income countries, the oil-exporting countries grew faster than the middle income countries.

[Insert table 1 about here]

The impressive growth in Africa has been attributed to a host of factors including inflow of foreign direct investment, debt relief in some countries, a rise in the inflow of remittances, commodity boom, committed macroeconomic policies, a more conducive macroeconomic environment, and absence of conflicts in the majority of countries (AfDB, 2012). The *Economist* (March 2-8, 2013) states that over the last ten years, real income per person in SSA has increased by more than 30 percent. Currently Africa is the fastest growing continent today. Africa's GDP is expected to rise by an average of 6 percent a year over the medium term. Africa continues to benefit from the relatively high growth in the emerging economies of China and India both of which have become important for Africa's trade and investment.

In a way, Africa may be said to be a continent that is full of contradictions. Despite the rapid economic growth, the rate of poverty reduction has been slow while inequalities remain high and widespread. One noticeable thing about Africa's growth is that it has not generated employment in the process, as such, many graduates are without jobs. Table 2 shows the poverty rates for countries in which we have data. In 20 out of the 24 countries, poverty decreased. The reduction in poverty overall is about 0.77 percentage points per annum for all the 24 countries. In sub-

Saharan Africa, poverty fell by an average of 0.84 percentage points per year. The countries with relatively high rates of poverty reduction were Burkina Faso, Ghana, Malawi, Mali, Mozambique, Rwanda, Senegal and Uganda. Increases in poverty levels were recorded in Zimbabwe, Egypt, Cote d'Ivoire and Chad.

[Insert table 2 about here]

Table 3 shows the correlation between poverty and economic growth. The correlation between annual economic growth and decline in poverty across all countries is -0.69. For sub-Saharan Africa, it is -0.67. The implication is that countries with high rates of economic growth have the greatest chance of reducing poverty while countries with relatively low rates of economic growth have low possibility of reducing poverty.

[Insert table 3 about here]

What has been the impact of growth on inequality? As shown previously, the increase in per capita income has only reduced poverty modestly. This means that the benefits of growth have not been shared equally among the African population. The Gini index of income inequality ranged from 30 in Ethiopia to 68 in Seychelles⁶. With an average Gini index of 45, Africa exhibits a greater degree of inequality than all other regions of the world with the notable exception of Latin America. Indeed, the wide income inequality in Africa has contributed to Africa's weak growth poverty elasticity⁷.

Given growth performance in recent times, would it have been greater if capital flight had been abated, or alternatively, if all or part of capital flight had been repatriated? What evidence do we

⁶ An index of 0 indicates perfect equality while an index of 100 indicates perfect inequality.

⁷ See Economic Commission for Africa and Africa Union (2012). Economic Report on Africa (2012).

have? From available evidence in the literature, the capital flight–growth linkage may be examined in two ways. The first utilizes a model that includes capital flight and examines its effects on growth. In the second the growth process works through investment. A number of studies for African countries linked capital flight to growth directly or through investment. These studies include that of Ndiaye (2010), Lawanson (2012), Collier et al (2000), Ajayi (1997, 2003), and Forgha (2008). In the case of the Cameroon (Forgha, 2008), it was found that there is a negative relationship between capital flight and growth. The relationship was found to be statistically stable. This finding according to Forgha was found to be consistent with other findings for Ghana, Nigeria, Morocco, Côte d'Ivoire, Gabon, Zambia, Namibia and Angola. Drawing on the Solow growth model, the study by Lawanson (2012) for West Africa finds that an increase of 10 percent in capital flight leads to a decline in investment of between 0.4 – 1.5 percent within the year. It also shows that the domestic tax base is eroded by capital flight loss. This has implication for government's financial position.

Using Kenya as an example, Ajayi (1997) finds that capital flight (using various alternative measures) is negatively related to real GNP growth. In the paper by Ajayi (2003), using different models of investment, it was found that there was a statistically significant negative relationship between various measures of capital flight and investment. It was found that a 1 percent rise in capital flight reduced investment by 0.5 percent. In the study by Ndiaye (2010), after showing that the Franc zone area is relatively more afflicted by capital scarcity than the rest of Africa, it is shown that capital flight negatively affects domestic investment, suggesting that capital flight lowers domestic investment in the Franc zone. The study also shows that the impact of capital flight on domestic investment operates through the private investment channel more than the public investment channel. The results were derived using two sets of empirical relationships.

The first examines the effect of capital flight on total domestic investment. The second examines the impact of capital flight on private investment and public investment in order to see whether the impact of capital flight on domestic investment operates through the private investment channel or the public investment channel. The study underscores the importance of capital flight repatriation in increasing the domestic investment of affected countries.

In a recent study on 75 developing countries, Cervena (2006) explores the impact of capital flight on long-term economic growth for a cross section of countries. The Solow-Swan growth model is utilized while controlling for other important variables. The results suggest that countries with higher capital flight to GDP ratio experience slower GDP per capita growth, and poorer countries suffer more from the phenomenon.

Collier et al. (2001) argue that if Africa were able to attract back the flight components of private wealth, domestic private capital stock would rise by about two-thirds, and that Africa's GDP per capita is lower by 16 percent than it would have been, had the continent been in a position to retain its private wealth at home.

Even though a number of studies have addressed the issue of capital flight repatriation in the past, Fofack and Ndikumana (2009, 2010) represent a significant departure from existing studies in that they quantitatively measure the impact of capital flight repatriation on important macroeconomic variables. To examine the potential gains from capital flight repatriation they focused on physical capital accumulation, one of the key drivers of economic growth. The reasoning is that capital flight repatriation would boost domestic saving, which in turn will lead to higher investment. At the same time, the repatriated capital flight will increase taxable base, thus raising government revenue and bring about an increase in public investment. The study

examines the effects of capital flight on gross domestic investment, both public and private. From the findings of the study, capital flight depresses private investment; and the effect of capital flight is more on private investment. Similarly, the study estimated that a repatriation of one quarter of Africa's stock of capital up to 2004 would have increased the investment to GDP ratio from 19 to 35 percent (Fofack and Ndikumana, 2010). The additional investment could have been used to address areas of greatest need to Africa such as poverty reduction, job creation, infrastructure and the social sector of the economy.

There is perhaps no better summary of the impact of capital flight on the economy than the one given by Ndung'u in a speech to the Governors of African Central Banks, quoted in Froberg and Waris (2011 p. 44):

In the short run, massive capital outflows and drainage of national savings have undermined growth by stifling private capital formation. In the medium to long term, delayed investment in support of capital formation and expansion have caused the tax base to remain narrow. Naturally, and to the extent that capital flight may encourage external borrowing, debt service payments also increased and further compromised public investment prospects. Furthermore, capital flight has had adverse welfare and distributional consequences on the overwhelming majority of the poor in numerous countries in that it heightened income inequality and jeopardized employment prospects.

In the majority of countries in the subregion, unemployment rates have remained exceedingly high in the absence of investment and industrial expansion.

Investment is seen as one of the most important conduits through which capital flight affects economic growth and development. It is claimed that if the amount of capital flight had been invested in the domestic economy it would have increased income per capita. It has been

estimated, for example, that this would have meant additional investment of \$10.7 billion and \$3.6 billion in Nigeria and Angola, respectively, in the period 2000-2008 (AfDB et al, 2012).

The argument that more investment will bring more growth in Africa is not without its challenges. The controversy centers on Africa's propensity to spend on white elephant projects as opposed to those that will bring about meaningful returns for growth and on the productivity of investment in Africa. This is apart from the argument that the level of corruption in many parts of Africa will not allow for meaningful investment in the first place but will be utilized to initiate another round of capital flight. Some authors in the past including Devarajan et al (2001, 2003) argue that both public and private investment in Africa are not productive as a result of poor macroeconomic policies, high public sector deficits and high political instability. It was on the basis of this argument that they concluded that investment in Africa was too high and not too low. Consequently capital flight was seen as a rational economic response to low rates of return to domestic investment (Devarajan et al, 2001). While low productivity of investment has penalized economic growth in Africa in the past, new evidence shows that there indeed exist a relationship between investment and growth even in Africa⁸. All these have essentially fuelled what is termed "an African productivity revolution". Investment in power generation as well as in infrastructures is growth-enhancing. The more the amount of resources that can be devoted to these sectors, the better it is for the economic growth and development in Africa.

⁸ See AfDB et al (2012).

5. Capital Flight, Human Development and the Millennium Development

Goals.

Since the 1990, the United Nations Development Program has been using its Human Development Index to track the evolution of human development across the world. It focuses on three key aspects, namely access to education, a healthy life, and a decent standard of living. It is a daily struggle in Africa to bring about an improvement in the quality of life. In 2012, SSA as a whole had the lowest aggregate level of human development among the regions shown in table 4.

[Insert table 4 about here]

Nevertheless, Africa showed substantial progress especially in the period 2000-2012. Africa's HDI growth was greater than all the regional groupings with the notable exception of South Asia. One factor contributing to this progress is income growth as most African countries experienced high levels of economic growth. *The African Economic Outlook (2012)* documented that Africa is experiencing its largest period of uninterrupted income growth over the last three decades, with growth rates averaging about 5 percent per year over the last ten years. The implication is that additional resources are being utilized to fund projects that are essential to daily living. As economies grow, they attract more investment and greater additional resources that are reinvested in the economy thereby increasing the level of per capita income.

Table 5 shows the human development index and its components. The HDI value for Africa was in the aggregate the lowest in 2012. Looking at the components, we find that with the exception of East Asia and the Pacific, Africa had the lowest life expectancy. Africa's (SSA) mean years of schooling was the lowest in 2010. SSA also had the lowest expected years of schooling in 2011. In 2005 PPP \$, SSA had the lowest income per capita in 2012, while the non-income HDI value

was the lowest in 2012. Shown in Table 6 is the human development index for those countries that are known to have large capital flight. Nigeria and Angola which are known to have very high capital flight, also have low human development. Table 7 shows inequality adjusted HDI for different regions. SSA has the lowest inequality-adjusted HDI with an overall loss of 35 percent, the greatest of all the regions. It also has the greatest loss in inequality adjusted life expectancy.

[Insert tables 5, 6, 7 about here]

How then does capital flight affect human development? Capital flight affects human development through many channels (AfDB et al., 2012). First, there is a relationship between capital flight and external debt. The linkages identified are capital flight to external debt and external debt to capital flight. In total, we have the following four relationships: debt-driven capital flight, debt-fuelled capital flight, flight-driven external borrowing and flight fueled external borrowing (Ajayi and Khan, 2000). In any case, the payment of the debt and payments for its servicing reduces a country's capacity to spend on education, infrastructure, health and other services to improve human well-being. Second, investment as mentioned earlier is one of the conduits through which capital flight affects human development because the money invested abroad deprives spending on essentials at home; and the potential output which could have been generated is lost. Indeed, the missing capital could have a more direct impact on livelihoods if invested in infrastructure, better access to schooling, health care, clean water, information and socio-political inclusion (AfDB et al., 2012). Third, capital flight is often evidence of poor governance. Poor governance leads to corruption which in turn discourages domestic investment (particularly private investment) because of the risk and uncertainty brought about by corruption.

According to the recent issue of *The Economist* (2013), even though African statistics are often unreliable, they nevertheless suggest that sub-Saharan Africa has made huge leaps in some areas. Accordingly, “secondary enrolment grew by 48 percent between 2000 and 2008 after many states expanded their education programs and scrapped school fees. Over the last decade malaria deaths in some of the worst affected countries declined by 30 percent and HIV infections declined by up to 74 percent. Life expectancy across Africa has increased by about 10 percent and child mortality rates in most countries have been falling steeply (The Economist, 2013, p. 3).”

Delivering services needs a lot of resources (Atisophon et al, 2011). Some estimates suggest that meeting the gender equality and education Millennium goals by 2015 would require an extra \$1.8 billion to \$2.3 billion annually. What this boils down to is financial resources in order to provide necessary services. Most of the services are provided by government which makes their provision vulnerable to fluctuations in government revenue. An additional source of finance would therefore be halting capital flight and the repatriation of the stock that is held abroad.

At the United Nations in 2000, the heads of state adopted the Millennium Development Goals, committing themselves to a series of international objectives to be reached by the year 2015. The heads of States committed their countries to a global partnership to reduce poverty, improve health and promote peace, human rights, general equality and environmental sustainability. These goals are widely accepted as the yardstick against which development in the international development efforts are to be assessed. The United Nations Millennium Development Goals

(MDGs) consist of a set of targets for halving extreme poverty, and providing universal primary education etc⁹.

According to the Africa MDG Report (AfDB et al, 2011b, p.1), “the overall assessment of Africa’s progress toward the MDGs reveals that, while progress has generally been positive, performance has been mixed across indicators and countries, and based on current trends, the overall pace of progress is insufficient to achieve the MDG by the target date of 2015.” The recent progress that has been made has been against the backdrop of global food, fuel and financial crises.

It is important to also note the following. First, progress on the achievement of MDG hinges crucially on sustained growth. Countries that have made progress on the MDG track have done so with robust growth. Secondly, the translation of growth into poverty reduction rests squarely on the ability of different countries to initiate policies and programs that will lead to the achievement of poverty reduction. Indeed, the issue of financial envelope is important here. It has been claimed that if capital flight was invested in the continent, it could meet the MDG goal of cutting poverty by half by the year 2015. This is a target that the continent will miss if the present trend continues.

According to AfDB et al. (2012), if all capital flight from Africa in 2008 had been invested in MDG related projects, it could have covered 55 percent to 68 percent of the required additional resources that year to close the financing gap to achieve the targets of halving poverty, reaching gender equality as well as the education and health-related “goals”.

⁹ The other goals are promoting gender equality and empower women, Reduce child mortality, Improve mental health, Combat HIV, AIDS, malaria and other major diseases, ensure environmental sustainability, develop a global partnership for development.

Africa is in need of predictable and timely resources in order for it to respond to its emerging development challenges. While external finance is important, there are inherent problems associated with developments in the international community. Given the fiscal imbalances in the developed world, the prospects for a rise in ODA is very dim. The commitment of DAC countries in most cases still falls short of the 0.7 percent of their GNI, and there seems to be no indication of a change in the short to medium term. Table 8 shows the additional capital requirement needed to achieve MDG1. The amount of money needed in SSA is substantial with a minimum of \$72 billion and a maximum of \$89 billion. The shortfalls in the income for the poor shows that SSA's needs are the greatest of all regions with a range of \$4.9 billion to \$9.8 billion (see table 9). The health-related expenditure is shown in table 10 for linear expenditure scenario and a constant expenditure scenario with SSA needing \$16.4 billion and \$19.5 billion, respectively.

[Insert table 8, 9, 10 about here]

The eradication of poverty is on the front burner of policymaking in Africa because of its pervasiveness and severity in many African countries. Africa is known as the poorest continent in the world. The main challenge is to bring about a substantial reduction in the extent and depth of poverty while at the same time transform the structure of the economy (Ajayi, 2006). The reasons why Africa has not been able to reduce its poverty level as fast as other regions are high population growth, high inequality, high volatility of growth, low rate of growth (Nkurunziza, 2012). Africa's rate of growth until recently has in general been low relative to the level needed to induce a meaningful effect on poverty reduction. Looking at income elasticity of poverty shown in table 11, Africa's income growth elasticity of poverty is the lowest of all the regions

shown. The implication is that Africa needs higher rates of growth than other countries where the elasticity is higher.

[Insert table 11 about here]

Shown in table 12 is the performance of the countries with the greatest capital flight. Four of the countries have more than 50 percent of the population below the poverty line. Nigeria, the country with the greatest amount of capital flight had 64 percent of the population below the poverty line. It is followed by Angola with about 54 percent of the population below the poverty line. It is clear that economic performance in Africa has not translated into a significant reduction of poverty among its population. Indeed the proportion of Africans that live on less than \$1.25 a day decreased marginally from 58 percent in 1990 to 51 percent in 2005. This rate of reduction falls short of the target of 29 percent by 2015 (AfDB et al, 2011 (a)).

[Insert table 12 about here]

6. What is the Effect of Capital Flight on Poverty?

The major focus of this section of the paper is on poverty. In using this approach, however, one should not lose sight of the fact that development goals are interrelated, and one cannot be achieved in isolation from the others. Achieving one goal may therefore necessarily imply the achievement of one other objective or goal. While poverty has impacts on education, health, population dynamics and environment; inversely, these factors also affect poverty. Similarly, widespread poverty and economic and gender inequality directly and indirectly contribute to the transmission of HIV/AIDS in many African countries especially among the unskilled (Ajayi, 2006).

The first detailed study on the impact of capital flight on poverty was undertaken in the African Economic Outlook 2012 (AfDB et al, 2012). In the study, two simulations were performed in order to capture the effect of capital flight on poverty. The first was based on the utilization of the capital-output ratio (ICOR) methodology. The approach determines the additional units of income per capita that would be generated if all capital flight had been invested in the source country during the year it fled. A predetermined income elasticity of poverty is utilized to derive the impact of capital flight on poverty. The second approach uses capital stock instead of investment as the variable capturing the impact of capital flight. This methodology is based on the idea that capital flight has effects on income not only in the year it left the country but also in subsequent years. The result shows that if all capital flight had been invested (with productivity of capital remaining the same), poverty in the region would have been lower than it currently is. The average poverty reduction would have been 4-6 percent points higher per year. There are differences in poverty reduction between oil rich and non-oil rich countries. In the ICOR methodology, poverty reduction would be highest in the group of non-resource rich countries. Given the current rate of poverty reduction of -2.8 percent, adding additional 4-6 percent points would allow most African countries to attain the goal inherent in MDG1, but if current rate continues, most countries would not attain the goal. The result also shows that stemming capital flight would have a bigger impact on poverty reduction in oil rich countries where the incidence of capital flight is greatest.

For Africa to meet the MDG, there are two important conditions that must be met. The first is that a growth rate of 7 percent on the average is needed. The second is that Africa needs a lot of resources which must come from external and domestic sources. In the first case, Africa's growth rate has not grown by 7 percent on the average. There are differences in the growth rate

of various countries. The reason for the low growth rate is not unconnected with the low investment rates in key sectors of the economy such as in the economic and social sectors which will have direct as well as indirect impact on poverty reduction. Africa has not also invested enough in programs that are poverty reducing.

7. The Quality of Public Finance and Absorptive Capacity¹⁰

In the discussions in this paper, a lot of emphasis has been placed on resource flows from capital flight without any reference made to the absorptive capacity, public finance management and capacity to manage a large influx of funds in various countries of sub-Saharan Africa. The repatriation of capital flight is only meaningful if there are skills to direct received funds to the productive sectors of the economy. What is necessary and has to be ensured is that resources do not disappear into private accounts. It is in countries where there is zero tolerance for corruption that this can be guaranteed. Secondly, there is need for proactive management style that ensures that funds are directed to areas with the highest positive multiplier effects especially in the areas of infrastructure (in particular, electricity and transportation), education and health which will boost human development index.

One of the relevant issues that are often discussed with regards to inflow of financial assistance in aid funded projects or programs is “absorptive capacity”. Absorptive capacity as used refers to the extent to which a country is able to effectively and efficiently expend the financial resources it receives in order to improve the welfare of its citizens. Absorptive capacity can also be defined

¹⁰ This section has benefitted from Tatar (2010), Lamb (2013) and Knezevic (2010).

as the form and amount of foreign resources that recipient countries, institutions or societies can receive without suffering significant social, economic and political disruption.

If capital flight is repatriated to source countries, it can make a significant impact on poverty reduction and the enhancement of sustainable economic growth. The extent to which the objectives are achieved is dependent on the absorptive capacity of the respective countries. There are a number of absorptive capacity constraints. These constraints include:

- i. Macro-economic constraints.
- ii. Institutional and policy constraints.
- iii. Technical and managerial constraints.

Dealing with the institutional and human capital constraints include:

- A lack of effective institutions to develop coordinated strategies.
- Poor transparency and inefficient budget systems.
- Inconsistent or unsuitable pattern of public expenditure (for example, lack of consistency in the types of projects being implemented).
- Lack of expertise in dealing with complex and highly technical agenda.

One of the important questions which should be addressed is the extent to which continued flow of resources can be said to be growth or welfare enhancing consistently and without limit. Research indicates that resource inflows that are between 15-45percent of GDP will be effective. Beyond this level, the benefits on the margin from additional resource inflows become negative. This is known to happen first, because significant inflow of foreign currency may produce the standard “Dutch disease” effect. An appreciation of the exchange rate in this case may harm the

export sector. Second, if flows are volatile and unpredictable, it makes planning difficult and affects macroeconomic stability. These two results are part of the macroeconomic constraints.

Recent research has confirmed the importance of institutions. Indeed, institutions matter for development. In order to transform resource inflows into development outcomes in low income countries, more capacity is needed to generate credible strategies, policies and programs. Indeed, “the transparency and efficiency of the budget system, the pattern of public expenditure, the degree of decentralization of resources and responsibilities, the mechanism to define policy priorities and accountabilities, and systems to hold government responsible are but a few examples of institutional and policy factors that can determine a country’s performance in generating positive development outcomes” (ODI, 2005, p.2). In many African countries such systems as enumerated may not be adequate to absorb large inflows of resources without wastage or increasing leakage and corruption.

The issue of corruption in Africa is well-known. According to the Transparency International corruption index (2013) which ranks countries according to perception of corruption, the average score for Africa was 2.93. Africa as a whole remains in what is popularly called the “rampant corruption category with a score that is below 3.0. Some countries in Africa such as Botswana, Rwanda, Mauritius, and Cape Verde have done well with scores above 5.0. Looking at some of the countries with large capital flight, we find that Ethiopia, Nigeria, Cote d’Ivoire, Democratic Republic of Congo and Sudan have corruption perception indices of 2.7, 2.4, 2.2, 2.0, and 1.6, respectively. For capital flight repatriation to be meaningful in these countries, corruption will have to be significantly reduced.

8. Summary and Conclusion

We can summarize this paper by mentioning the major highlights. Africa has substantial resource gap that needs to be filled in order to experience sustained growth and development. Just as Africa is looking externally for resources, a lot of capital flight is taking place. Africa has become a net creditor to the rest of the world. The exodus of capital from Africa is inhibitive of sustained growth and development because of the resource gap that capital flight exacerbates. Capital flight leads to a reduction in growth potential, erosion of tax base and adverse redistribution consequences among others.

Africa's recent economic performance is particularly impressive within the context of the global economic and financial crisis of 2008-2009. Africa was able to overcome the worst scenarios of the crisis because of its resilience. While there has been significant economic growth in Africa over the last decade, it has not resulted in substantial reduction in poverty. Growth has not led to the creation of sufficient jobs for the young graduates from universities. What has been found is a lot of inequalities. The significant economic performance of Sub-Saharan Africa in recent times is a direct pointer to the fact that a lot can be achieved in growth and development if the amount of capital flight stayed in the source countries.

Capital flight affects economic development through its impact on investment or directly its impact on growth. There is abundant evidence in the literature to support this proposition. In many cases, there is evidence that it is the private investment that is negatively affected by capital flight. This is not a surprising result given the origin of capital flight in the first place. Available evidence shows that if capital flight had been retained in their respective countries, the level of poverty would have been less than it is currently. The average poverty reduction would have been 4-6 percent points higher. If all capital flight from Africa in 2008 had been invested in

MDG related projects, it could have covered 55 percent to 68 percent of the required additional resources that year to close the financing gap to achieve the target of halving poverty, reaching gender equality as well as the education and health-related goals.

The additional resources needed by SSA to meet the various targets of the MDGs are enormous. The amount of capital flight could be used to bridge the gap in resources if the flow of capital flight can be curtailed and/or if capital flight is repatriated from source countries. It is a daily struggle in Africa to bring about an improvement in the quality of life. In 2012, SSA as a whole had the lowest aggregate level of human development among the developing regions.

Africa is in need of predictable and timely resources in order for it to respond to enormous emerging developmental challenges. One of the assumptions is that the amount of capital flight is meaningfully invested in the domestic economy in useful projects as opposed to white elephants projects. This indeed is a strong assumption. It must be realized also that changes in economic policies and institutions are important for growth and development. It is important not to lose sight of the quality of public finance and the “absorptive capacity” of each country. Absorptive capacity itself is limited by a number of constraints including macroeconomic, institutional and technical constraints.

Looking into the future, there is a need to put in place policies at the domestic level that will allow the retention of capital flight in the source countries. Putting in place policies for zero tolerance for corruption is a step in the right direction. The international community has a role to place. In particular, in reforming the international financial architecture, capital flight must be given special consideration. Countries harboring illicit funds from developing countries must be

held accountable, and systems must be put in place to prevent the rise of the havens for capital flight and other ill-gotten funds. It must be realized, of course, that this is a tall order.

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Table 1: Sub-Saharan Africa: Real GDP Growth (percentage)

	2004-2008	2010	2011	2012	2013	2014
Sub-Saharan Africa (Total)¹	6.4	5.4	5.3	5.1	5.4	5.7
Of which:						
Oil-exporting countries ¹	8.5	6.6	6.1	6.4	6.6	6.8
Middle-income countries ²	5.0	4.0	4.7	3.3	3.6	4.0
Of which: South Africa	4.9	3.1	3.5	2.5	2.8	3.3
Low income countries ²	7.3	6.4	5.6	5.7	6.3	6.6
Fragile countries	2.5	4.2	2.4	7.0	6.8	6.5
Memo item: World	4.6	5.2	4.0	3.2	3.3	4.0

Source: IMF, World Economic Outlook database.

¹ Excluding South Sudan.

² Excluding fragile countries.

Table 2: National Poverty Rates in selected African countries.

Country	Initial Year	Poverty Rate in Initial Year	Final Year	Poverty Rate in Final Year	Total Change in Poverty rate	Percent Annual Change in Poverty rate
Benin	2006	37.4	2010	35.2	-2.2	-0.55
Burkina Faso	1998	60.2	2003	40.7	-19.5	-3.90
Cameroon	1996	53.3	2007	39.9	-13.4	-1.22
Chad	1995	43.4	2003	55.0	11.6	1.45
Cote d'Ivoire	1998	36.4	2008	42.7	6.3	0.63
Egypt	1996	19.4	2008	22.0	2.6	0.22
Ethiopia	1995	45.5	2005	38.9	-6.6	-0.66
Ghana	1999	39.5	2006	28.5	-11.0	-1.57
Guinea	1994	63.9	2007	53.0	-10.9	-0.84
Kenya	1997	52.3	2005	45.9	-6.4	-0.80
Madagascar	1997	73.3	2005	68.7	-4.6	-0.57
Malawi	2004	52.4	2009	39.0	-13.4	-2.68
Mali	2001	55.6	2006	47.4	-8.2	-1.64
Morocco	1999	16.3	2007	9.0	-7.3	-0.91
Mozambique	1996	69.4	2008	54.7	-14.7	-1.23
Nigeria	1996	65.6	2004	57.8	-7.8	-0.98
Rwanda	2000	60.4	2011	44.9	-15.5	-1.41
Senegal	1995	61.4	2006	40.0	-21.4	-1.95
South Africa	1995	31.0	2006	23.0	-8.0	-0.73
Tanzania	1992	38.6	2007	33.4	-5.2	-0.35
Tunisia	1995	6.2	2005	3.8	-2.4	-0.24
Uganda	1996	44.4	2009	24.5	-19.9	-1.53
Zambia	1996	68.1	2006	59.3	-8.8	-0.88
Zimbabwe	1995	42.0	2003	72.0	30.0	3.75

Source: Compiled from World Bank's World Development Indicators. .

Table 3: Correlation between Annual Change in Poverty and Annual Per Capita GDP Growth Rate.

All Countries	-0.69
Sub-Saharan Africa	-0.67
Sub-Saharan Africa excluding Zimbabwe and Cote d'Ivoire	-0.36
Sub-Saharan Africa excluding Zimbabwe, Chad, and Cote d'Ivoire	-0.41

Source: AfDB (2012), African Development Report 2012.

Table 4: Human Development Index Trends (1980 – 2012), by Regions.

Regions	Human Development Index (HDI). (Value)								Average Annual HDI Growth. (%)			
	1980	1990	2000	2005	2007	2010	2011	2012	1980/ 1990	1990/ 2000	2000/ 2010	2000/ 2012
Arabs States	0.443	0.517	0.583	0.622	0.633	0.648	0.650	0.652	1.56	1.21	1.07	0.94
East Asia and the Pacific	0.432	0.502	0.584	0.626	0.649	0.623	0.678	0.683	1.51	1.51	1.43	1.31
Europe and the Central Asia	0.651	0.701	0.709	0.743	0.757	0.766	0.769	0.771	0.74	0.12	0.77	0.70
Latin America and the Caribbean	0.574	0.623	0.683	0.708	0.722	0.736	0.739	0.741	0.83	0.93	0.74	0.67
South Asia	0.357	0.418	0.470	0.514	0.531	0.552	0.555	0.558	1.58	1.19	1.60	1.43
Sub-Saharan Africa	0.366	0.387	0.405	0.432	0.449	0.468	0.472	0.475	0.58	1.44	1.47	1.34

Source: United Nations Development Programme (UNDP), 2013. International Human Development Indicators, available at www.hdr.undp.org/en/statistics

Table 5: Human Development Index and its Components by Regions.

Regions	HDI value. 2012	Life Expectancy at Birth (Years). 2012	Mean Years of Schooling (Years). 2010	Expected years of Schooling (Years). 2011	Gross National Income per capita (2005 PPP \$). 2012	Non Income HDI value. 2012
Arabs States	0.652	71.0	6.0	10.6	8317	0.658
East Asia and the Pacific	0.683	22.7	7.2	11.8	6874	0.712
Europe and the Central Asia	0.771	71.5	10.4	13.7	12243	0.801
Latin America and the Caribbean	0.741	74.7	7.8	13.7	10300	0.770
South Asia	0.558	66.2	4.7	10.2	3343	0.577
Sub-Saharan Africa	0.475	54.9	4.7	9.3	2010	0.479

Source: United Nations Development Programme (UNDP), 2013. International Human Development Indicators, available at www.hdr.undp.org/en/statistics

Table 6: Human Development Index (HDI) of Selected African Countries.

Country	2012	2011	2010	2009	2008	2007	2006	2005	2000
Nigeria	0.471	0.467	0.462	0.457	0.453	0.448	0.444	0.434	-
Angola	0.508	0.504	0.502	0.484	0.477	0.472	0.415	0.406	0.375
Cote d'Ivoire	0.432	0.426	0.427	0.422	0.417	0.412	0.408	0.406	0.392
South Africa	0.629	0.625	0.621	0.616	0.613	0.609	0.606	0.604	0.622
Sudan	0.414	0.419	0.411	0.408	0.405	0.401	0.396	0.390	0.364
Congo, Democratic Republic	0.304	0.299	0.295	0.289	0.282	0.280	0.262	0.258	0.234
Gabon	0.683	0.679	0.676	0.671	0.667	0.662	0.655	0.653	0.627
Ethiopia	0.396	0.392	0.387	0.376	0.365	0.350	0.333	0.316	0.275
Mozambique	0.327	0.322	0.318	0.312	0.306	0.301	0.291	0.287	0.247
Cameroon	0.495	0.492	0.488	0.482	0.474	0.458	0.456	0.453	0.429

Source: United Nations Development Programme (UNDP), 2013. International Human Development Indicators, available at www.hdr.undp.org/en/statistics

Table 7: Inequality-adjusted Human Development Index (IHDI).

Regions	HDI 2012	Inequality Adjusted HDI 2012		Inequality-adjusted life expectancy index. 2012		Inequality-adjusted education index. 2012		Inequality-adjusted income index. 2012	
	value	Value	Overall Loss (%)	Value	Loss (%)	Value	Loss (%)	Value	Loss (%)
Arabs States	0.652	0.486	25.4	0.669	16.7	0.320	39.6	0.538	17.5
East Asia and the Pacific	0.683	0.537	21.3	0.711	14.2	0.480	21.9	0.455	27.2
Europe and the Central Asia	0.771	0.672	12.9	0.716	11.7	0.713	10.5	0.594	16.3
Latin America and the Caribbean	0.741	0.550	25.7	0.744	13.4	0.532	23.0	0.421	38.5
South Asia	0.558	0.395	29.1	0.531	27.0	0.267	42.0	0.436	15.9
Sub-Saharan Africa	0.475	0.309	35.0	0.335	39.0	0.285	35.3	0.308	30.4

Source: United Nations Development Programme (UNDP), 2013. International Human Development Indicators, available at www.hdr.undp.org/en/statistics

Table 8: Additional Capital Requirement Needed to Achieve MDG 1 Growth Targets (i.e. the “Financing Gap”) as Estimated by a Simple Harrod-Domer Model (USD billion).

Region	Minimum	Maximum
East Asia & Pacific	0.13	0.13
Europe & Central Asia	7.6	10
Latin American & Caribbean	130	170
Middle East & North Africa	8.3	8.5
South Asia	0.94	1.9
Sub-Saharan Africa	72	89

Source: Atisophon et al. (2011, p. 31).

Table 9: Shortfall in the Income of the Poor between Baseline and Target Scenarios (USD billion)

Region	Aggregate Transfer to Poor Needed.	
	Market Exchange Rates	Purchasing Power Parity
Europe & Central Asia	0.0	0.1
Latin American & Caribbean	0.6	1.1
Middle East & North Africa	0.1	0.1
Sub-Saharan Africa	4.2	8.6
Total	4.9	9.8

Source: Atisophon et al. (2011, p. 33).

Table 10: Health-related Expenditure Needed by Region and by Income Group (2009, USD billion)

Region	Required additional health expenditure in 2015	
	Linear Expenditure Scenario	Constant Expenditure Scenario
Sub-Saharan Africa	16.4	19.5
Middle East & North Africa	0.0	0.0
Europe & Central Asia	0.1	0.2
East Asia & Pacific	2.5	4.3
South Asia	12.8	34.8
Latin American & Caribbean	0.1	0.2
Total	31.8	58.9

Source: Atisophon et al. (2011, p. 37).

Table 11: Income Elasticity of Poverty by Region and by Period, 1980s - present (\$1.25)

	1980s	1990s	2000-	Overall
Global	-2.427	-2.244	-2.396	-2.335
East Asia and Pacific	-2.019	-2.127	-2.397	-2.163
Europe and Central Asia	-4.683	-3.499	-3.519	-3.683
Latin America and the Caribbean	-2.803	-2.922	-3.016	-2.928
Middle East and North Africa	-3.029	-3.095	-3.034	-3.062
South Asia	-2.031	-2.136	-2.038	-2.055
Sub-Saharan Africa	-1.498	-1.112	-1.359	-1.256

Source: Fosu, (2011).

Table 12: Population below the International Poverty Line for Selected Countries (percentage).

S/N	Country	Percentage of Population
1	Nigeria	64.4
2	Angola	54.3
3	Cote d'Ivoire	23.3
4	South Africa	26.2
5	Congo, Democratic Republic	59.2
6	Gabon	4.8
7	Ethiopia	39.0
8	Mozambique	74.7
9	Cameroun	32.8

Source: Domestic authorities and World Bank (Povcal 2009), World Development Indicators, online Database, country DHS.