Chapter 4

Human Development

Improving quality of life in sub-Saharan Africa remains a daily struggle. The region again had the lowest aggregate level of human development indicators — life expectancy, education and standard of living — in 2011 but it had the second fastest annual increase over the period 2000-2011.

The five countries with the highest rates of improvement over this period —Rwanda, Sierra Leone, Ethiopia, Mozambique and Mali— are poor or emerging from conflict. They have shown that countries can significantly expand the capabilities of their people even with limited financial resources if they implement the right policies. Policy alone is not enough however. Improvements to schools, hospitals, public services and roads require vast financial resources which traditionally have come from Official Development Assistance (ODA), Foreign Direct Investment (FDI) and remittances. Reversing capital flight could produce an important source of development finance to further strengthen human development in Africa.

Africa lost about USD 700 billion between 1970 and 2008 as a result of capital flight. If flight capital had been reinvested in Africa with the same level of productivity as that of actual investment, estimates presented in this report suggest that the rate of poverty reduction could have increased 4-6 percentage points a year, on average, over the period from 2000 to 2008. African countries could as a group have reached the Millennium Development Goal of halving the 1990 level of poverty by 2015, an objective they will not achieve on the current rate of poverty reduction. The flight capital could also go into increased investment in social and economic infrastructure.

International co-operation will be crucial to reverse the flow of African capital back to the continent. Africa should continue to improve domestic governance and eliminate the practices that foster capital flight. The international community should help the continent to identify and repatriate stolen wealth using, among others, international instruments such as the "Stolen Asset Recovery Initiative." Without an international coalition for the reversal of capital flight, Africa alone will not succeed due to the reticence of some countries benefiting from these practices.

The status of human development in Africa

The UN Development Programme introduced its Human Development Index (HDI) in 1990 to track the global evolution of human development across the world focusing on three key aspects: access to education, healthy life and standard of living (UNDP, 2011; AfDB *et al.*, 2011a). The most recent HDI (Table 4.1.) shows that in 2011, sub-Saharan Africa continued to have the lowest aggregate level of human development. However, the pace of its improvement has kept up with the East Asia and Pacific region over the period 2000/11.

Sub-Saharan Africa's gains in improving lives seem to come from all three dimensions of human development. Introduction of universal access to primary education in countries

Table 4.1. **Human Development Index (1990-2011)**

	1990	2000	2011	Annual % growth 1990-2011	Annual % growth 2000-2011
Algeria	0.551	0.624	0.698	1.13	1.026
Angola	..	0.384	0.486	..	2.18
Benin	0.316	0.378	0.427	1.444	1.105
Botswana	0.594	0.585	0.633	0.297	0.714
Burkina Faso	..	..	0.331	..	..
Burundi	0.25	0.245	0.316	1.123	2.333
Cameroon	0.427	0.427	0.482	0.578	1.11
Cape Verde	..	0.523	0.568	..	0.755
Central African Republic	0.31	0.306	0.343	0.475	1.046
Chad	..	0.286	0.328	..	1.258
Comoros	..	..	0.433	..	..
Congo	0.502	0.478	0.533	0.283	0.992
Congo (Democratic Republic of the)	0.289	0.224	0.286	-0.043	2.249
Côte d'Ivoire	0.361	0.374	0.4	0.496	0.613
Djibouti	..	..	0.43	..	..
Egypt	0.497	0.585	0.644	1.241	0.883
Equatorial Guinea	..	0.488	0.537	..	0.878
Eritrea	..	..	0.349	..	..
Ethiopia	..	0.274	0.363	..	2.571
Gabon	0.605	0.621	0.674	0.516	0.746
Gambia	0.317	0.36	0.42	1.351	1.405
Ghana	0.418	0.451	0.541	1.232	1.662
Guinea	..	..	0.344	..	..
Guinea-Bissau	..	..	0.353	..	..
Kenya	0.456	0.443	0.509	0.522	1.272
Lesotho	0.47	0.427	0.45	-0.215	0.475
Liberia	..	0.306	0.329	..	0.64
Libyan Arab Jamahiriya	..	..	0.76	..	..
Madagascar	..	0.427	0.48	..	1.07
Malawi	0.291	0.343	0.4	1.52	1.408
Mali	0.204	0.275	0.359	2.742	2.469
Mauritania	0.353	0.41	0.453	1.196	0.922
Mauritius	0.618	0.672	0.728	0.782	0.732
Morocco	0.435	0.507	0.582	1.391	1.256
Mozambique	0.2	0.245	0.322	2.279	2.491
Namibia	0.564	0.577	0.625	0.494	0.724
Niger	0.193	0.229	0.295	2.047	2.332
Nigeria	..	..	0.459	..	..
Rwanda	0.232	0.313	0.429	2.967	2.917
São Tomé and Principe	..	..	0.509	..	..
Senegal	0.365	0.399	0.459	1.103	1.281
Sierra Leone	0.241	0.252	0.336	1.609	2.649
Seychelles	..	0.764	0.773	..	0.106
South Africa	0.615	0.616	0.619	0.031	0.05
Sudan	0.298	0.357	0.408	1.516	1.228
Swaziland	0.526	0.492	0.522	-0.029	0.538
Tanzania (United Republic of)	0.352	0.364	0.466	1.346	2.266
Togo	0.368	0.408	0.435	0.799	0.579
Tunisia	0.542	0.63	0.698	1.214	0.94
Uganda	0.299	0.372	0.446	1.928	1.653
Zambia	0.394	0.371	0.43	0.425	1.366
Zimbabwe	0.425	0.372	0.376	-0.585	0.106
Sub-Saharan Africa	0.383	0.401	0.463	0.907	1.316
Africa	0.397	0.415	0.467	0.78	1.079
East Asia and the Pacific	0.498	0.581	0.671	1.43	1.318
South Asia	0.418	0.468	0.548	1.298	1.445
Latin America and Caribbean	0.624	0.68	0.731	0.756	0.66

Source:UNDP (2011).

such as Uganda and Lesotho have boosted schooling. Life expectancy has increased as countries adopt innovative policies to improve access to health services and the quality of those services provided. In Rwanda, for example, the government introduced a Community-Based Health Insurance (CBHI) that the health system provides affordable quality services to everyone. By improving the scheme's management, adhesion rates increased from 7% of the population in 2003 to 93% by June 2010. A recent study of the effect of the "Payment for Performance (P4P)" policy in Rwanda's primary care provision shows that it has improved the use and quality of maternal and child health services. Twenty-three months after the introduction of the P4P pilot study, facilities in the intervention group recorded 23% more institutional deliveries, 56% more preventive care visits by children aged 23 months or younger, and 132% more visits by children aged between 24 months and 59 months. (Basinga *et al*., 2011).

This illustrates the importance of implementing the right policies. If Rwanda's rate of growth in human development could become the average for sub-Saharan Africa for the next 16 years, the region would reach Latin America and Caribbean's human development level, which is currently the highest in the developing world.

Another factor that contributed to Africa's progress is income growth. The recent growth in human development comes as most African countries experience high levels of economic growth. The African Economic Outlook has documented that Africa is experiencing its longest period of uninterrupted income growth over the last three decades. With Gross Domestic Product (GDP) growth rates averaging about 5% per year over the last 10 years, Africa now has one of the fastest-growing regional economies in the world. Income growth means that additional resources have been used to fund projects or activities helping daily lives. This is the case, for example, with spending on education or healthcare. A second, more indirect channel is through investment. As economies grow, they attract more investment and generate additional resources that are reinvested in the economy, increasing income per capita. Between 2003 and 2009, GDP per capita in Africa increased by 2.7% per year. If the dip in income experienced in the 2009 international economic and financial crisis is taken out, the growth rate of GDP per capita is 3.1%.This rise in income increases the population's purchasing power, allowing consumers to access goods and services that were out of their reach before. The increase of per capita GDP has accelerated poverty reduction in sub- Saharan Africa. It has been estimated that on average, a one percentage increase in income per capita leads to about a one and a half per cent reduction in poverty (Fosu, 2011). In 1999, sub-Saharan Africa's poverty rate was 58% of the population, declining to 52% in 2005. By 2008, the rate had fallen to 48% of the population.[1] The rate of poverty declined by 2.2% per year over the period 1999 to 2008, an unprecedented performance since the early 1980s when comparative data was first compiled. As the simulations in the next section suggest, keeping up this rate of poverty reduction in coming years will take some African countries to the first Millennium Development Goal (MDG) of halving the 1990 level of poverty by 2015. But not all African countries will meet the target date.

Reducing poverty and improving lives to levels in line with Africa's human development objectives will require massive resources. The non-financial resources include a strong political commitment to human development which needs to be translated into a vision with clear objectives for its implementation, as Rwanda has illustrated. The availability of qualified staff to implement policies is also important. Delivering services also needs hospitals, schools, electricity, roads, etc. But this is costly to put in place and maintain. Some estimates suggest that meeting the gender equality and education MDGs by 2015 would require an extra USD 1.8 billion to USD 2.3 billion annually. In the same vein, health expenditure for the health-related MDGs would require between USD 16.4 billion and USD 19.5 billion annually. Sub-Saharan Africa would need USD 72 billion to USD 89 billion of additional annual resources

to achieve the economic growth need to halve the 1990 level of poverty by 2015 (Stijns *et al.*, 2011). In agriculture, developing the much-needed irrigation systems in areas where they are economically viable would cost the continent about USD 54 billion, excluding the cost of rehabilitating existing irrigation (You *et al.*, 2009). Another estimate suggests that Africa needs to invest USD 40 billion annually in new infrastructure and another USD 40 billion each year to maintain the existing infrastructure (Gijon, 2008).

It is inconceivable that countries will make substantial progress without devoting additional finance to human development. So far, most of the extra services needed have been publicly provided, making their provision vulnerable to fluctuations in government revenue. Most African governments do not raise enough domestic resources to meet all their needs. Aid in the past has played an important role, but the needs are so important that one source alone cannot fill the resource gap. What is needed is a combination of different sources of development finance including traditional official development assistance, foreign direct investment, remittances, and domestic private and public resources.

Halting capital flight and repatriating the large stock capital that is held abroad could become a new source of development finance to use on services. If the billions of dollars that leave the continent each year in the form of capital flight had been directed to Africa's human development, the region would be in a better position to meet its development objectives. Between 1970 and 2008, total capital that fled Africa has been estimated at USD 700 billion (Ndikumana and Boyce, 2011). Ironically, among the eight countries with average capital flight in excess of USD 1 billion per year over the period 2000 to 2008, five are classified as low human development countries (UNDP, 2011) which struggle to find the financial resources to improve the lives of their people.

Given the nature of illicit financial flows and the difficulties surrounding their estimation, different studies come up with different estimates. Global Financial Integrity's estimate puts capital flight out of Africa over the period 1970-2008 at USD 854 billion and notes that the amount could be as high as USD 1.8 trillion if the computation of the figures were not constrained by unavailability or poor quality of data for a number of countries (Global Financial Integrity, 2010). It should be noted that the computation of capital flight includes licitly and illicitly acquired financial assets which leave the country illicitly. Therefore, a flow of capital qualifies as capital flight as long as it leaves a country illicitly.

Capital flight and human development in Africa

Capital flight from Africa has been recently put at the forefront of the development policy debate. In addition to the recent work by Ndikumana and Boyce (2011), Global Financial Integrity (2010) and The World Bank (2011), the United Nations Economic Commission for Africa has just established a High-Level Panel on Illicit Financial Flows from Africa headed by Thabo Mbeki, former president of South Africa. The role of the Panel is to "determine the nature, pattern, scope and channels of illicit financial outflows from the continent; sensitize African governments, citizens, policy makers, political leaders and development partners to the problem; mobilize support for putting in place rules, regulations, and policies to curb illicit financial outflows; and influence national, regional and international policies and programmes on addressing the problem of illicit financial outflows from Africa."[2]

Capital flight is often conceived as being determined by differences in the risk-adjusted rates of return on capital (Collier *et al.*, 2001). Capital flight would then correspond to large legal or illicit outflows of financial resources due to high political or economic instability in the originating country or higher returns on investment in the destination country.[3] This

perspective misses an important component relevant to capital flight from Africa: financial outflows resulting from the illicit appropriation of resources through theft, plundering of public resources, corruption, and trade mispricing.

Capital flight affects human development through several channels. First is the narrow association between capital flight and debt. For every dollar of Africa's external debt, more than 50 cents leave the country the same year in the form of capital flight (Ndikumana and Boyce, 2011). The repayment of such public debt by African populations reduces their capacity to increase spending on health, education, infrastructure, and other services to improve lives. If the amounts used every year to repay Africa's external debts were spent on programmes and projects to reduce infant mortality, they could prevent the deaths of 70 000 infants every year (Ndikumana and Boyce, 2011).

Capital flight also deepens inequality. The people benefiting from capital flight are the elites who engage in trade mispricing of imports and exports or those who have the power to unlawfully appropriate and transfer resources abroad. Almost all the people engaging in capital flight in Africa are among the 10% richest segment of the population (Ngaruko, 2012). Even in countries where capital flight is mainly driven by portfolio considerations, it is the wealthy who benefit as they have access to foreign investment instruments that average citizens do not (Rodriguez, 2004; Vespignani, 2008). Capital flight in Africa is also associated with poor governance. Corruption increases capital flight by discouraging domestic investment by increasing risk and uncertainty in the domestic economy. As a result, domestic agents are better off investing abroad, increasing capital flight and depriving countries of jobs and other social benefits from domestic investment (Le and Rishi, 2006). Corruption helps the elite to unlawfully take public or private assets and transfer them abroad. The country's leaders have little incentive to develop the domestic economy and social services. Access to foreign health and education services makes the elite immune to the dangers of poor domestic social services which the majority of the population has to rely on. Therefore, by improving governance and the rule of law, practices that foster capital flight are restricted.

Investment is one of the most important conduits through which capital flight affects human development. If flight capital was saved and invested in the domestic economy of the country of origin it would increase income per capita and help to reduce poverty. In Nigeria and Angola, for example, this would imply additional investment of USD 10.7 billion and USD 3.6 billion per year, respectively in the period 2000 to 2008. If only a quarter of the stock of flight capital from Africa was repatriated to the continent for investment, Africa's ratio of domestic investment to GDP would increase from 19% to 35%, giving the continent one of the highest investment rates (Fofack and Ndikumana, 2010). Income growth resulting from this additional investment would reduce poverty, as shown later in this chapter.

The missing capital could have a more direct impact on livelihoods by being invested in infrastructure which is high on Africa's priority list: job creation, better access to schooling, health care, clean water; information and socio-political inclusion could all come out of the better use of the capital in infrastructure. If all capital flight from Africa in 2008 had been invested in MDG-related projects, it could have covered 55% to 68% of the additional resources needed that year to close the financing gap to achieve the targets of halving poverty; reaching gender equality as well the education and health-related Goals (Stijns et al., 2011).

Table 4.2. provides some statistics to show the magnitude of capital flight and income and poverty levels in three groups of countries: oil-rich countries, all resource-rich countries and non-resource-rich countries.[4] Due to the presence of large outliers in the data, medians are used instead of means.[5]

Table 4.2. **Descriptive statistics (annual, 2000-08)**

	Oil-Rich	All Resource-Rich	Non-Resource-Rich	Full Sample
All flows of capital flight (million USD)*	1291	613	134	230
All flows of capital flight per capita (USD)*	94	66	19	26
Capital flight (outflows) in million USD	2292	1023	300	447
Capital flight (outflows) per capita in USD	186	130	37	55
Actual GDP per capita	1101	993	399	604
Poverty headcount in 1999 (% population)	57.24	54.31	62.37	57.93
Poverty headcount in 2008 (% population)	44.86	43.52	44.75	44.58
Income-growth elasticity of poverty	-1.35	-1.37	-1.4	-1.37

Note: The first two variables with stars (All flows of capital flight) include negative flows.
Source: UNDP.

Oil-rich countries experience the most capital flight, almost ten times the size of all capital flight in non-resource-rich countries.

Indeed, in this group of countries, capital flight in the 2000s was about three times higher than its level in the 1990s and 1980s.[6] Interestingly, the level of poverty in resource-rich countries is the same as in non-resource-rich countries; poverty reduction was even faster in the latter group of countries.

Africa's investment controversy

The argument that investing flight capital boosts human development is based on the premise that more capital would generate higher incomes and hence lower poverty and improve human development. Although this view appears to be widely shared today, it has not always been like that. In the past (e.g. Devarajan et al., 2001; 2003) some argued that neither public nor private investment would be productive in Africa due to poor economic policies such as distorted foreign exchange markets —illustrated by high black market premiums— and high public sector deficits. Factors such as high political instability also explain the weak relationship between investment and economic growth. Given the low productivity of investment in Africa in the past, these authors also suggested that the level of investment in Africa was too high, not too low. Hence, the suggestions were that capital flight may be a rational response to low rates of return at home due to these negative factors (Devarajan et al, 2001).[7] Do the economic facts on the ground support this view?

Even though low productivity of investment has penalized economic growth in Africa, new evidence invites a more nuanced view of the relationship between investment and growth in the continent. To start with, the studies that formed the basis for the controversial conclusion that Africa does not need more investment have been challenged on methodological grounds (Jomo et al., 2011). Moreover, over the last ten years, the continent has recorded growth rates around 5% of GDP on average (AfDB *et al.*, 2011b). It is difficult to conceive that higher investment, including through FDI from emerging economies, have not played a role in achieving this performance. Recent data shows that internal structural changes including more political stability, macroeconomic as well as microeconomic reforms have fueled "an African productivity revolution" which explains a large part of the continent's recent growth. Between 2000 and 2007, total productivity increased by 2.7% per year, on average (McKinsey & Company, 2010). In addition, the efficiency of investment in Africa could have been even higher if the continent had been able to raise the substantial resources required to invest in sectors that boost investment productivity such as power generation. As Africa continues to invest in economic modernisation, particularly in infrastructure, growth is expected to remain strong. Investing flight capital could help to accelerate this economic modernisation. Hence, Africa needs more not less investment (Fosu *et al.*, 2011).

Box 4.1 **Methodology and data sources**

The main assumption underlying the analysis of the potential effect of capital flight on poverty is that Africa needs additional investment to meet the Millennium Development Goals (MDGs) and other development objectives. Also that the productivity of the additional investment would be at least as good as the productivity of current investment. The simulation of the effect of capital flight on poverty follows two approaches. First, an Incremental Capital-Output Ratio (ICOR) method is followed to determine how much additional output would be generated if all capital flying out of Africa each year was domestically invested in the same year. Studies show that Sub-Saharan Africa has, on average, an ICOR of 4, so this is the value used to simulate additional GDP (Nkurunziza, 2010). Taking an ICOR of 4 instead of a lower value partially addresses the criticism that not every increase in investment leads to an increase in GDP (Easterly, 1997). In any case, due to the lack of a better model capturing the relationship between investment and GDP, the use of ICOR remains popular. Once the additional GDP attributed to additional investment is known, it is straightforward to determine its associated potential growth in GDP per capita which is multiplied by the income-growth elasticity of poverty to derive the effect on poverty.

The second approach considers the net stock of capital, rather than investment, as the variable determining additional GDP as a result of the investment of flight capital. The determination of the stock of capital is based on the perpetual inventory method using a geometric depreciation process and a rate of 5% per year as in most studies (Weisbrod and Whalley, 2011; Bosworth and Collins, 2003). The median co-efficient of the stock of capital over GDP indicates how many units of capital are needed to produce one unit of GDP. Assuming that this coefficient is stable, it is applied to the additional stock of capital to calculate potential GDP growth. As in the previous case, the potential effect of capital flight on poverty is the product of the potential annual growth rate of GDP per capita and the income-growth elasticity of poverty.

The data on GDP, population and investment (measured as gross fixed capital formation) are from the United Nations accessible at http://data.un.org/Default.aspx. Capital flight country series are background data used in Ndikumana and Boyce (2011). Methodological details on the computation of capital flight may be found in Ndikumana and Boyce (2010). Data on poverty is from The World Bank's POVCALNET accessible at: http://iresearch.worldbank.org/PovcalNet/povDuplic.html. Due to missing data in the computation of capital flight, coverage of this variable and all those based on it is uneven across countries but most countries have full coverage (1970-2008). All the monetary variables are in 2008 US dollars. Twenty-three per cent of the observations on capital flight are negative implying that a country receives net inflows of capital. Unless otherwise stated, the analysis in this chapter is based on the positive values of capital flight as they represent capital outflows. Income-growth elasticities of poverty are from Fosu (2011).

The discussion focuses on the period from 2000 to 2008 in order to reflect the most recent situation, to address the problem of unequal data coverage in early years of the sample, and also to minimise the effect of the exclusion of initial capital stock on current stock of capital (see also Weisbrod and Whalley, 2011). As time passes, excluding initial capital stock does not substantially affect current values of capital stock.

Capital Flight and the Fight Against Poverty

The following simulations illustrate how much additional poverty would be cut if all flight capital was invested and how this would affect the goal of halving poverty by 2015. Table 4.3. summarises the results based on the ICOR methodology first and then on capital stock (see Box 4.1. for the methodology). Both approaches show that investing flight capital in Africa would lead to faster poverty reduction.

Table 4.3. **Effect of Capital Flight on GDP per Capita and Poverty (Annual, 2000-08)**

	Oil-Rich	All Resource-Rich	Non-Resource-Rich	Full Sample
Actual GDP per capita (a)	1101	993	399	604
Income-growth elasticity of poverty (b)	-1.35	-1.37	-1.4	-1.37
Simulations with ICOR methodology				
GDP per capita (c)	1156	1018	423	621
Annual % growth of GDP per capita (d)	5	2.52	6.02	2.81
Effect on poverty [(b) * (d)]	-6.74	-3.45	-8.42	-3.86
Simulations with capital stock				
GDP per capita (e)	2174	1518	582	858
Annual % growth of GDP per capita (f)	8.88	5.45	4.83	4.49
Effect on poverty [(b) * (f)]	-11.98	-7.46	-6.76	-6.15

Table 4.3. suggests that investing flight capital in the originating countries could have increased income per capita by an additional 3 to 5 percentage points per year in the full sample; some country groups would experience even higher income growth. This increase in income would have had a very strong effect on poverty reduction. Headcount poverty could have declined by 4 to 6 additional percentage points in Sub-Saharan Africa between 2000 and 2008. One lesson from Table 4.2. is that the pattern of capital accumulation is more important to the growth process than investment alone. For example, several countries including Burundi, Central African Republic, Democratic Republic of Congo and Côte d'Ivoire failed to improve their human development partly because over the years, they destroyed part of their capital stock instead of building it. The combination of high capital flight and slow capital accumulation further limits countries' efforts towards poverty reduction and human development.

Table 4.3. compares the level of poverty in 2015 if the 1999-2008 rate of poverty reduction is maintained against how much it could be cut if flight capital had been invested in the economy.

Table 4.4. **Effect of Flight Capital Investment on MDG1 (Annual, 2000/08)**

	Oil-Rich	All Resource-Rich	Non-Resource-Rich	Full Sample
Actual annual rate of poverty reduction	-2.67	-2.43	-3.62	-2.87
Projected poverty headcount in 2015	34.22	34.03	30.94	33.32
MDG 1 target headcount by 2015	24.10	24.54	34.26	30.96
Distance from MDG1 target (% points)	10.12	9.49	-3.31	2.36
Simulating the Effect of Capital Flight				
Projected ICOR-based poverty in 2015	27.52	34.04	24.18	33.84
Distance from MDG1 target (% points)	3.43	9.50	-10.08	2.88
Projected capital stock-based poverty in 2015	18.36	25.29	27.42	28.59
Distance from MDG1 target (% points)	-5.73	0.76	-6.84	-2.37

Note: The actual annual rate of poverty reduction is based on the change in poverty headcount between 1999 and 2008; the rate is used to calculate the projected poverty headcount in 2015.

If the current trend in poverty reduction continues until 2015 the sample countries, as a group, will miss the target of halving poverty against 1990 levels. The rate of poverty in 2015 will be 8% higher than what it should be if the MDG were to be met. Non-resource-rich countries will meet the target and even exceed it by 3 percentage points.[8] If capital flight had been converted into investment, the countries in the sample, as a group, and all three groups, would meet the target of halving poverty by 2015. Non-resource-rich countries would experience the best performance and exceed the goal by almost 7 percentage points.

The fact that non-resource-rich countries would reduce poverty faster than resource-rich countries, despite the fact that countries with oil and other commodities have better finances suggests that poverty reduction and general human development do not just depend on the availability of finances even though they help to achieve success. Other factors such as pro-human development policies are important determinants of success. As the data in the next section shows, progress in human development has been faster in some of the poorest African countries than in relatively rich countries.

Conclusion

Even though sub-Saharan Africa remains the region with the lowest human development index, there is progress that needs to be sustained and even speeded up. Rwanda, the country with the fastest growth in human development, has shown that the right policies can significantly improve the lives of people. Several other countries such as Ethiopia, Ghana and Uganda have experienced rapid progress too. However there are limits to what policy alone can achieve. Major financing is needed to reach and sustain high rates of growth of human development. Given the size, countries need to combine ODA, remittances, FDI and tax revenue. Capital flight, despite the huge sums involved, has not yet been mobilized. If Africa could reverse capital flight and repatriate and invest even a part of the estimated USD 700 billion held abroad, the continent could accelerate progress in human development.

This chapter has shown that capital flight out of Africa is undermining the continent's efforts to reduce poverty. If the lack of financial resources was the only constraint to human development, investing flight capital from Africa with the same efficiency that has characterized real investment would have reduced headcount poverty by an additional 4 to 6 percentage points. With this performance, African countries as a group would halve extreme poverty by 2015 in line with the MDGs. Using flight capital could also help African countries make substantial progress on improving education, and health infrastructure. Stemming capital flight and encouraging repatriation of the finance should be part of African strategies to promote the quality of life of their people. It is ironic that poor African countries that are struggling to mobilize resources have vast financial resources that they cannot access as they are hidden abroad. As the actors involved in capital flight are in and outside Africa, international cooperation will be needed to find a lasting solution to this problem. Current efforts in Europe and the United States to curb tax evasion have illustrated the reticence of some countries benefiting from these flows to root out illicit financial transfers. So Africa should expect resistance to efforts to repatriate capital. African countries should take advantage of the current international consensus around the need to eliminate extreme poverty by increasing pressure for the repatriation of illicit capital to fight poverty. Africa's improved investment and political climate are signals that such resources will be used more efficiently than in the past.

Given the right political will in Africa, a number of actions could be taken to stem capital flight. First, it would be useful to undertake detailed studies at country level to identify the magnitude, causes and main destinations of capital flight, including assessing the magnitude

of illicit flows. Second, once the phenomenon is better understood, specific policies to counter capital flight could be put in place. For example, generalizing shipment inspections as an integral part of import and export procedures would reduce capital flight due to trade mispricing. Undertaking external public debt audits would help to determine what part of the debts is odious and would help decision-making about selective debt repudiation. Third, improvement in governance and the rule of law, particularly government transparency in terms of financial inflows and how they are used, would undermine secrecy surrounding capital flows to and from Africa, a situation that has allowed capital flight to flourish. In this regard, the international community should make "Publish What You Pay" a core principle of corporate governance to be applied by multinational corporations negotiating large investment contracts with African countries. Fourth, African states with the help of the international community, should take advantage of the "Stolen Asset Recovery Initiative" to push for the repatriation of stolen assets. Finally, African countries could consider granting time-limited amnesty to citizens willing to repatriate assets held unlawfully in foreign countries. This has been successfully tried by a number of countries, including Italy.

Notes

1. Data from The World Bank's POVCALNET: http://iresearch.worldbank.org/PovcalNet/index.htm?1

2. http://taxjustice.blogspot.com/2012/02/communique-on-inauguration-of-high.html

3. See for example http://www.investorwords.com/704/capital_flight.html. A broader definition views capital flight as the flow of any productive resource from poor to rich countries (Tornell and Velasco, 1992). A more general definition refers to capital flight as the difference (also called residual) between all the resources entering into a country and the recorded outflows in a given year.

4. Oil-rich countries in the sample are Angola, Cameroon, Chad, Republic of Congo, Gabon, Nigeria and Sudan. Non-oil resource-rich countries in the sample are: Botswana, Côte d'Ivoire, Guinea, Sierra Leone and Zambia. Non-resource-rich countries are: Burkina Faso, Burundi, Cape Verde, Central African Republic, Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mauritania, Mozambique, Rwanda, Sao Tome and Principe, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. This classification is similar to the one used in IMF's Economic Outlook.

5. For example, the mean of capital flight—including negative flows--is $639 million per country and per year although this value corresponds with the 74th percentile of the distribution of capital flight. If only the positive values of capital flight are considered, average capital flight is $1037 million per country and per year; this value corresponds with the 77th percentile of the distribution of positive values of capital flight.

6. In non-resource-rich countries, capital flight in the 2000s was only 38% higher than in the 1990s and 80% higher than in the 1980s. The reasons explaining the high correlation between capital flight and oil export income requires research that is beyond the objective of this chapter.

7. Statistical evidence on capital flight from Sub-Saharan Africa does not support this conventional portfolio motive. Econometric studies do not find a significant statistical relationship between capital flight and the interest rate differential between Africa and advanced economies, the main destination of Africa's capital flight (Ndikumana and Boyce, 2003).

8. These are aggregate results so they do not mean that individual countries will or will not meet the target.

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