unabhängig // Medien // online
Independent // Non-Profit // Media
acTVism
www.acTVism.org • Information that moves

Why Africa is a actually a Net Creditor to the Rest of the World | Interview Series with Léonce Ndikumana

This transcript may not be 100% accurate due to audio quality or other factors.

Know Your Stuff - Why Africa is actually a net Creditor to the rest of the world
PART 1

acTVism (acTV): Thank you for joining us today. Before we start this interview series, which will deal with economic issues relating to Africa, could you please introduce yourself and your past work?

Léonce Ndikumana (LN): Thank you very much for this opportunity. First of all, my name is Léonce Ndikumana and I'm a professor of economics at the University of Massachusetts Amherst. I also run a program on African development policy. My work involves an analysis of capital flight from African countries - the issues of external borrowing. I'm also interested in issues of development financing, domestic resource mobilisation, financial inclusion, and others.

acTV: Before we dive into the underlying reasons why many African countries are still struggling economically today, despite all the financial aid and reform, we would like to start this video series by addressing some basic definitions & concepts: Could you please define foreign direct investment, FDI & capital flight?

LN: So when we talk about foreign direct investment - and I'm going to use the case of African countries - we're talking about investment capital money that's coming from other countries into African economies to be invested in companies, in projects where the foreign investor takes part of ownership of a company or a project. So they contribute to the investment in the country. There are also investments that are going the other way - so you can have South African company or person investing in Mozambique. That's going to be called foreign direct investment also. But those are typically recorded in the government statistics and because the government wants to track how much money is coming into the country, which sectors they are being invested in and also movement abroad. If a Kenyan company wants to invest in South Africa or Mauritius they will have to declare the investments with the central bank, with whichever ministry is in charge of regulation of the foreign capital account. So those would be visible in the other countries statistics.

The phenomenon of capital flight is different: the phenomenon of capital flight (is) involves money that leaves the country without being recorded in the government statistics, and that take various forms which we will probably get in to. But I can already mention the forms (that that) through which capital flight takes place: (is where,) for example, companies manipulate their import/export transactions. For example, a company is importing goods from the rest of the world, they will need foreign exchange from the central bank, but they will inflate the amount of money that these imports will cost. So if the imports cost say 10 million, they will present papers that show that the imports cost 15 million, which means they will be able to secure the 5 million difference. Which you can use in the hold (holdings) abroad or use for their own transaction, not accredited to the central bank. In which case, there will be 5 million that have really left the country without being explained. The manipulation could also happen on the export side where a company is exporting goods to the rest of the world, and if they export a value of say 50 million, they will say that they only sold the goods for 40 million, which means that they will only declare - to the central bank - 40 million and the rest will stay abroad. So that's a very common way of way through which money leaks out of the continent without being recorded.

But of course you'll have cases where money is simply taken in cash in briefcases and deposited in foreign accounts without being declared to the government, and unfortunately (and this could be the case) this could involve money that a private citizen has obtained or earned - but for some reason don't want to declare to the government that they are shipping it abroad. So they don't pay taxes on interest or don't have to explain how they got the money, in which case the money leaks out of the country underground.

It could also be situations where it's official money, government money that's being stolen by people who are in charge of managing the government resources. Examples include when governments borrow money to finance projects, and the managers of the project basically take a fraction of the money and that ends up leaving the country in briefcases, in all kinds of obscure ways of transferring the money abroad. And this particular example has a severe effect on the country if the government borrowed money to build a road for a hundred million and ten million is taken out of the budget, what happens? It means that the road will not be as efficiently constructed as it was supposed to be. That's when you end up with roads that does start crumbling after two years. I live in the US - roads are built for 15 years. In many African countries after 2 years you start having potholes in some cases even less than two years because the builders put a thinner layer of the macadam because the money was stolen. So that's a case where the country is losing twice – in the sense that ten million is is gone from the government resources, and the country ends up with a really, really bad road. So that's a very serious concern in terms of the impact of capital flight on African economies.

acTV: In your book “Africa’s Odious Debts: How Foreign Loans and Capital Flight Bled a Continent” you put a lot of emphasis on the negative effects that “odious debt” has on the development of African countries. Could you define what that is and also provide some examples?

LN: So an example is actually good for following up to my discussion about the case where money that is borrowed by the government is stolen by people while in charge of managing the resources. So let me start by saying that it is part of normal practice that governments will borrow money from abroad to finance development projects even developed countries’ governments do borrow, for example from the market, from the private sector. So it's okay for an African government to go out and borrow money from lenders abroad to finance a road, a school, and then the country got to pay back the loan.

The problem is that when the loan is not used for the purpose it was designed for, and it's stolen, the country still has to pay back the loan. So what we mean, what we call odious debt, is the loans that have been borrowed by countries but that do not contribute to development, that do not benefit the citizens of the country. Either because the roads are not built, the schools are not built, and yet the country has to pay back the loan. It’s odious in the sense that it did not fulfill the purpose that it was contracted for. It's also odious in the sense that when the lenders actually know the purpose of the loan, but they also should know how the loan is being used. So in practice when lenders give money to African countries, there is an agreement between the government and the lender about what the money is for - it's a road (fr example). There is also a process in which the lender monitors the use of the loan, throughout the construction of the road there are teams of the lenders which will come in and examine the way the project is going, and then at the end they'll come back and see whether the road has been built.

So in a sense if a government borrowed money to build a school and there's no school that's built, the lender is also responsible, for they should have seen that there is no school that has been built. So in this case the problem is that you have a government that goes out and borrows money for the sake of financing development. And some or all the money ends up being stolen and financing private consumption, or financing arms that are going to kill people - which is another case the government borrows money, it's going to buy weapons, it is going to kill its own citizens. That's the most egregious case of odious debts. In this case the burden of borrowing still falls on the population. Even years to come; whereas they did not benefit in terms of development financing. That's what we mean by odious debts.

acTV: In your book you also highlight some cases in which authoritarian regimes in Africa pocketed Western loans or development aid to enrich themselves instead of using it for social development. Western governments & international banks turned a blind eye to these activities. Can you talk about these cases?

LN: So, in our book on Africa's odious debt, we profile a case of the former President of the Congo - which used to be called Zaire, now it's not called the Democratic Republic of Congo - who was called Mobutu. In the case of Mobutu - he is somebody who had a very good access to lenders because of political reasons. He ruled during the period which is referred to as a Cold War period, where he was seen as a strategic ally for the west, in terms of combating the expansion of communism in Africa.

So he was given access to loans freely, easily, and he used those loans to enrich himself. Many times money would simply go from the central bank to his private accounts abroad. He would buy & build mansions which don't benefit the country, but at the same time the loans have to be paid back. In this case it's odious in the sense that the lenders knew - in the case of Mobutu - we profile a case where reports were filed to international institutions documenting how the money is disappearing from the central bank. Yet Mobutu kept receiving loans. In this case it's an example where the lenders are also accomplice to the odious debt machinery. So that's an example where again people ióf the Congo have to repay the loan and at the same time they didn't get the benefit.

acTV: Can you talk about the price that the African people pay due to odious debt and capital flight?

LN: Yeah, so the issue of odious debt and capital flight generally has severe implication on social development. It has a huge human cost. In our book - again, the book on Africa and Africa's odious debts, I would encourage people to read it - we document the fact that when governments are spending revenue to pay for the loans which were stolen by past government leaders. That is money that is not being used to build schools, that is money that's not being used to build clinics. So in fact, every dollar that is used to service debts that were stolen by government rulers implies less medical care, less education, so less students are going to go to school, and it means that progress in service delivery is hampered by odious debts.

So, in terms of capital flight itself, every dollar that leaves the country means that resources for investment in infrastructure: roads, resources for investment in schools are being drained. So capital flight is a heavy drain on government resources. So our latest is estimation for example shows that up to 2015, the accumulated amount of capital flight exceeds 1.3 trillion. Okay? That's almost the same as the size of the economies of sub-saharan Africa. That shows you the magnitude of the resources that have left the country. Now, if you could assume that these monies were invested in the country, that means the African countries will have higher levels of domestic investment, they will have better roads, they will have better schools – so it has severe drain on resources.

And one other implication that we draw is inequality. So you can imagine that people have access to government coffers, who can steal the money from the government, people have wealth to hide and stash abroad. These are among the elite, the political elite. They are the ones who are benefiting from these resources. Which means that the gap between the rich and the poor keeps increasing, because the poor not only don't have that money, but also the services that were hoping for to come from the government are not there. So the rich get richer, the rich can receive their medical services - even abroad. Because you can see what's what most frustrating is that many times the same government officials, who are embezzling government revenue, which would have financed schools and medical services are going abroad to get treatment, are sending their kids abroad for education. So in a sense they are not affected by the poor quality of public services. It's really unfair.

acTV: Part 2 of this interview series that will deal with the role of Western governments, multinational corporations & the international banking system coming soon on our YouTube channel!

END