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Rich Presidents of Poor Nations:
An African Story of Oil and Capital Flight

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Stories of African presidents shipping suitcases of cash to finance political campaigns abroad in exchange for patronage have made the headlines recently, prompting legal probes into illicit wealth accumulation. On February 14th, France 24 reported that the French Police searched the apartment of Theodoro Obiang Nguema, the President of Equatorial Guinea, whose family has accumulated massive wealth by mortgaging his country’s oil. In 2011, Global Witness reported that his flamboyant son Theodorin Obiang commissioned a personal super-yacht with a handsome price tag of $380 million, worth three times the country’s combined budget for health and education. The French Justice system is also pursuing inquiries into the illicit wealth of Ali Bongo of Gabon and Denis Sassou Nguesso of the Republic of Congo. While they are dramatic, these stories reflect a deep seated tragedy of African resource-rich countries.

Equatorial Guinea, Gabon, and the Republic of Congo are among the richest countries in the continent with per capita incomes of $8649 (second), $4176 (5th), $1253 (15th). They have massive oil reserves, ranking 9th (Gabon), 10th (Congo), and 11th (Equatorial Guinea) in the continent. At the same time, while these presidents are erecting financial and real estate empires in the West, a large number of people in these countries live in abject poverty, lacking access to basic social services such as drinking water, elementary school, and health care.

Despite Equatorial Guinea’s large oil revenues, a baby born there has less chance to live up to 5 years than the average sub-Saharan African infant. Gabon and Equatorial Guinea rank second and third to last in immunization against measles, with 55% and 51%, respectively. A key reason for this dire situation is inadequate funding of public services. Gabon is spending 3 times as much on servicing external debt as it is on public health (9% compared to 3%). Congo spends nearly the same amount on public health (1.5 percent of GDP) and on debt service (1.2%). Global Witness reported that one month of personal consumption spending by Denis Christel Sassou Nguesso, son of the Congolese President, could have paid for vaccinations against measles for 80,000 Congolese babies.

The question is why are the politicians of these countries so rich while their people are so poor? One important reason is that revenues from natural resources are embezzled by the politicians and their private associates to accumulate private wealth. In Africa’s Odious Debts, we estimate that the Republic of Congo and Gabon lost about $24 billion and $18 borrowing that is siphoned out by the elites through a ‘revolving door’.
Commentary from

The stock of capital flight from the two countries vastly exceeds their external debts by $21 billion and $19 billion respectively, making them 'net creditors' to the rest of the world. Sub-Saharan Africa as a whole has experienced an exodus of over $700 billion over the past four decades, even as it faces large financing gaps and stubbornly high poverty rates in many of its countries. Like Equatorial Guinea, Congo, and Gabon, other oil-rich countries such as Angola, Nigeria, Côte d’Ivoire, and the Democratic Republic of Congo also are on the top of the scale of capital flight, with Nigeria leading the pack with $296 billion over the 1970-2008 period.

The tragic cohabitation of capital flight and poverty in African oil-rich countries is a result of occult management of natural resources and external borrowing by African governments on the one hand, and a global banking system plagued by perverse incentives as well as the primacy of myopic strategic interests on the part of Western governments on the other hand. As corrupt African leaders accumulate wealth, the African people are saddled with debts and watch helplessly as their natural resource reserves are depleted with little to show for in return. On the other side, Western bankers and governments turn a blind eye to the plunder of African resources and the illicit accumulation of wealth by the continent’s elites.

Naming and shaming African corruption culprits and their Western associates is a step in the right direction towards addressing the plunder of African wealth and the scourge of capital flight. But more systematic strategies are required given the massive scale of the problem. A key part of these strategies is to enforce transparency in the exploitation of natural resources as well as in the management of external debt.

In this context, African countries should undertake systematic audits of public debts, learning from the experience of other countries such as Ecuador, which successfully completed the process. Competently and transparently implemented debt audits would establish an objective basis for unilateral selective repudiation of illegitimate debts, notably on the basis of domestic agency in British and American law. Donors in turn need to also carefully scrutinize and audit their loans to developing countries. Norway is taking the lead on this commendable initiative. In addition to these efforts on the public side, western governments need to enforce transparency in the banking system.

Moreover, transparency and accountability requirements need to be extended to trade in natural resources and highly luxurious goods, especially when it involves political exposed persons (PEPs). The lack of clear disclosure rules enables private companies to protect the confidentiality of their customers, including corrupt leaders from poor nations. Increased transparency and accountability in international transactions would not only help curb capital flight and embezzlement of Africa’s wealth by its elites, but it would also help build more crisis-resilient global financial and trade systems to the benefit of all.

[1] The search was conducted by two judges in charge of the dossier of illicit wealth (or “biens mal acquis”) and the anti-financial delinquency police (Office central pour la répression de la grande délinquance financière – OCRGDF).
[3] The under-5 mortality rate is 147 per thousand in Equatorial Guinea compared to an average of 142 for sub-Saharan Africa.
[6] The Ecuador Debt Audit Commission set up by President Rafael Correa concluded that the country’s debt accumulation “occurred for the benefit of the financial sector and transnational companies and clearly went against the interests of the country,” and that paying the debt would “hurt the fundamental rights of people and communities, deepening poverty and adding to migration.” Source: Commentary on the report by Bloomberg at: http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a8suBA8l3ik