

**Time to find embezzled billions**  
**Calestous Juma**  
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IN AN unprecedented response to development needs, the Paris Club of rich lender countries has decided to freeze loan repayment by nations affected by the Indian Ocean tsunami disaster. The decision follows calls by British government leaders to write off debt owed by poor countries.

This gesture highlights the wider problem of how developing countries can broaden their financial bases for development.

Money embezzled and hidden in foreign banks by government officials is a possible additional source of funds. It should be repatriated, put in private foundations under appropriate legislation and used to support priorities such as education, health and infrastructure.

Doing so raises a number of legal and moral issues, as noted by the 2003 United Nations (UN) Convention against Corruption. But so does doing nothing.

The United Nations estimates that about \$ 11bn was looted from Nigeria and Kenya by corrupt government officials in the 1990s. The UN estimate puts the plunder of Nigerian assets at \$ 7,7bn, of which about \$ 2,2bn was exported to other countries. Kenya's loss to corruption is put at more than \$ 3bn.

In addition, Mobutu sese Seko was reported to have embezzled nearly \$ 5bn from former Zaire during his rule, which ended in 1997.

Corruption and the transfer of illicit funds have been a big factor in the flight of capital from Africa.

But Africa has no monopoly in this department. Embezzled government funds are the subject of intense debate in Haiti, Indonesia, Iran, Pakistan, Peru and the Philippines, according to Transparency International.

In December 2003 the US homeland security department returned to the government of Nicaragua \$ 2,7m embezzled by former Nicaraguan officials and illegally invested in South Florida. Such funds could be used to support development activities that are difficult to fund from state budgets.

For example, higher technical education is a critical element in long-term development, according to a UN Millennium Project taskforce on science, technology and innovation. Its report is part of a larger advisory work, Investing in Development, presented yesterday to UN Secretary-General Kofi Annan.

But higher technical education will require increased foreign and domestic funding - and one possible source is repatriated funds channelled through a new generation of private foundations. Foreign and local banks could also be encouraged to make charitable contributions to these foundations.

Pursuing such a strategy requires a number of institutional reforms. Strict measures need to be adopted to minimise the risk of further corruption.

An amnesty on previous embezzlement should not become an incentive for future crimes. Governments will need to pass laws that allow nationals to create and manage private foundations for disbursing the funds to public interest activities.

Institutions such as the Ford Foundation of the US could play an important role in supporting the creation of such laws and related institutions.

Creating laws to use looted funds in social programmes should be part of longer-term strategies to generate local revenue for development, and they should be written to accommodate other donors.

The governments of developing countries have often been reluctant to provide tax exemptions for charitable activities. Their main argument has been the potential for loss of revenue, but this is undermined by their lack of action to prevent money going abroad.

Given the pressure to attract foreign investment, government officials should see the investment of such revenue as one of the first steps in strengthening the base for local development. Such laws would not only give governments a new vehicle for contributing to development but also offer opportunities to improve governance.

African governments need to work closely with the industrialised countries where the funds have been hidden, and with financial intelligence agencies.

Information obtained through such means should help governments strengthen their capacity to negotiate with suspected looters.

Exploring new avenues for funding long-term development is just as important as freezing repayment of foreign debt. The time has come to debate this option in the open.

\*Juma is professor of the practice of international development at Harvard University's Kennedy School of Government.