

## GOVERNANCE & GLOBAL RISK MANAGEMENT

# FINANCIAL INSTITUTIONS AND DEBT CANCELLATIONS: HOW TO GET RID OF MORAL HAZARD?



CIFE SEMINAR ROMA-BERLIN-NICE 2026  
**MICHEL-HENRY BOUCHET**

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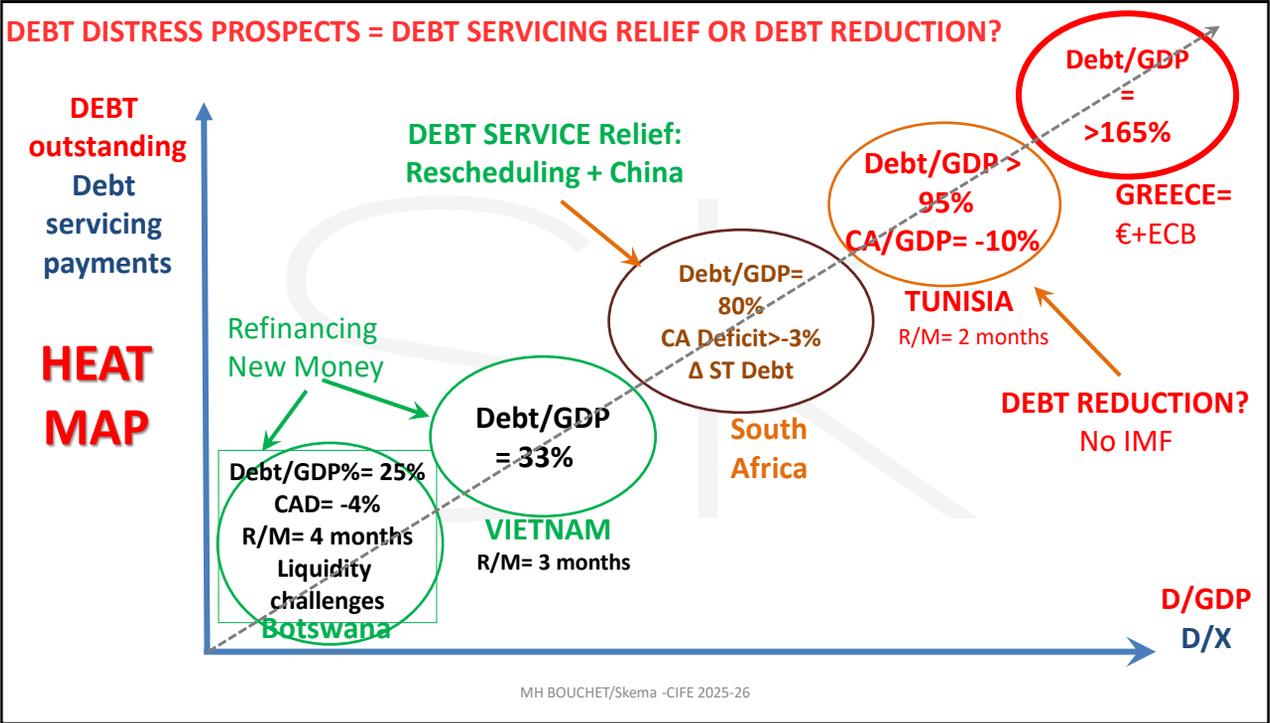
## WHAT ARE THE RELATIONS BETWEEN GOVERNANCE, DEBT CRISIS, AND CAPITAL FLIGHT?

### 6 takeaways:

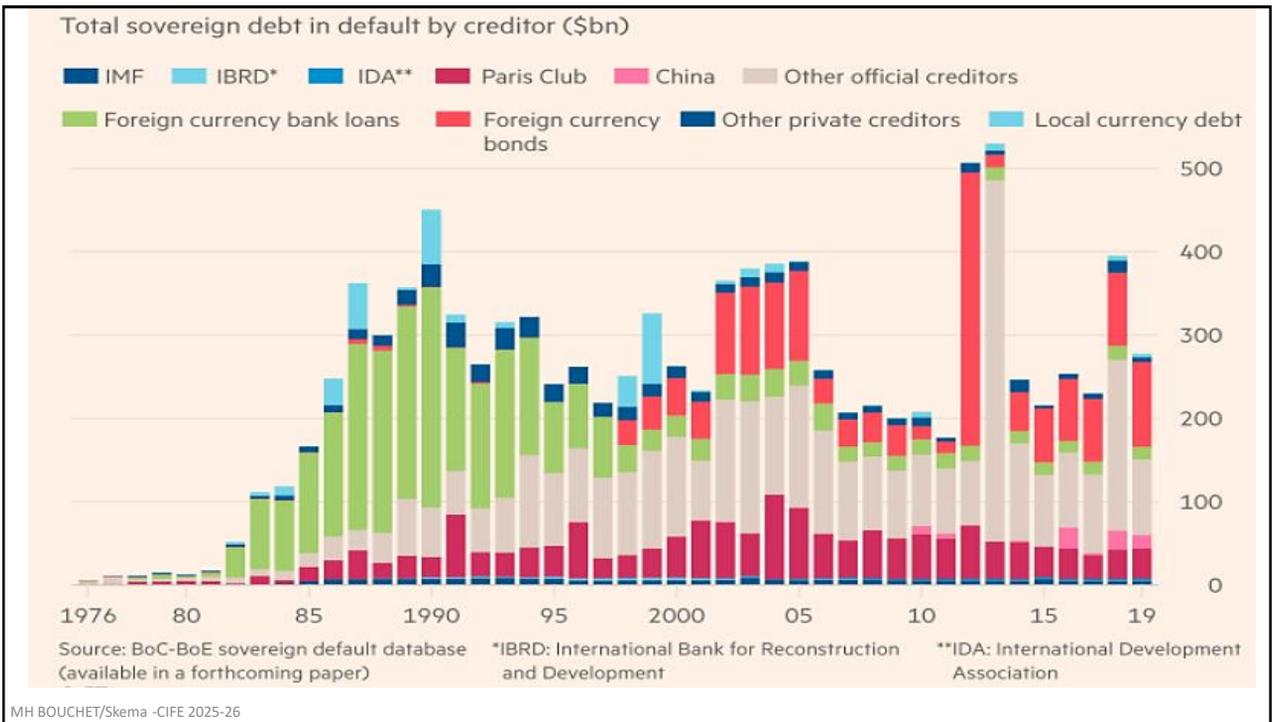
1. **IFIs-supported Debt Reduction** is NOT related to the quality of governance, while debt reduction does NOT encourage any governance improvement
2. **Debt relief coupled with bad governance** does not encourage capital flight repatriation nor productive domestic investment of BOP savings proceeds.
3. Bad governance tends to **discourage domestic savings and investment**, whereas good governance prevents capital flight and brain drain.
4. Capital flight is generated by both **push** (domestic/internal) **and pull** forces (external)
5. **Corruption and opacity** lead to institutional weakness, including in the domestic banking system. The lower the governance, the larger the share of private deposits in international banks compared to central bank reserves.
6. The countries with the lowest governance ranking are also those which show the **largest ratios of expatriate savings** (i.e., private deposits in foreign banks) to bank claims. Even a partial return of exiled capital could help repay all or part of the bank debt.

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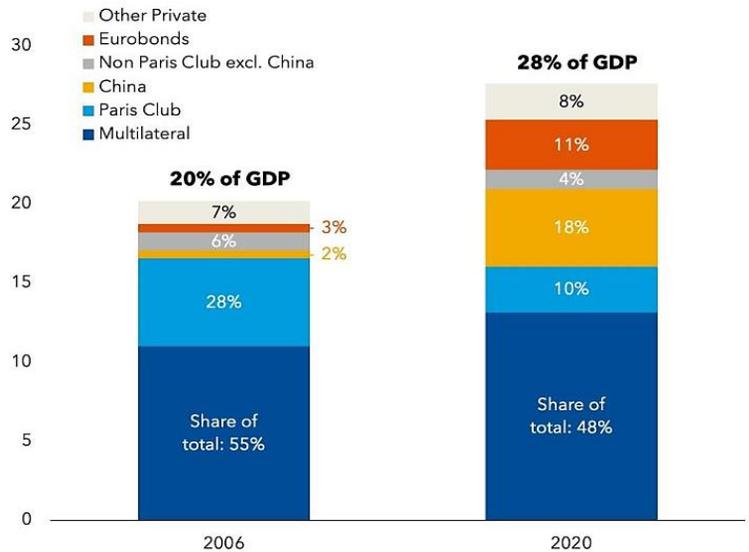


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## THE CHANGING STRUCTURE OF EXTERNAL LIABILITIES=

RISING SHARE OF  
CHINA'S CLAIMS MAKES  
DEBT RESTRUCTURING  
MORE COMPLEX AND  
UNCERTAIN!

For DSSI countries, the composition of external obligations has changed significantly as borrowing levels increased.  
(external debt in percent of GDP)



Source: World Bank IDS, IMF WEO, and staff calculations.

IMF

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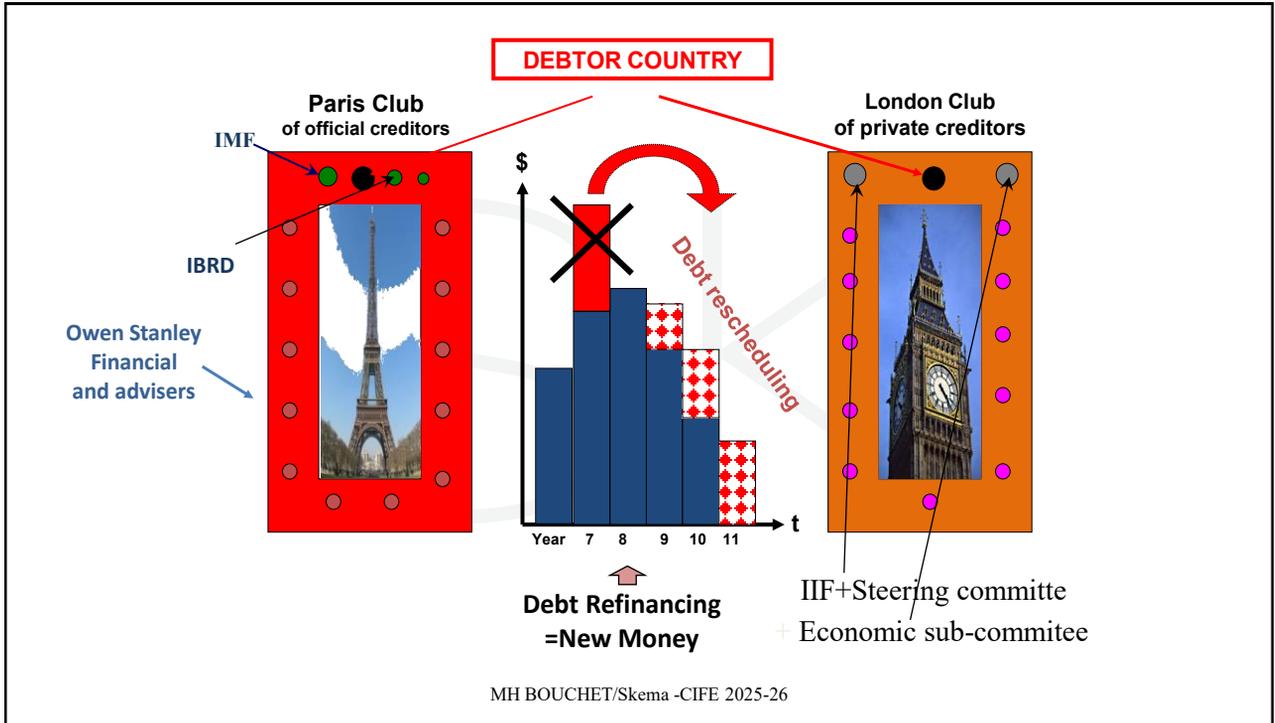
## THE DEBT RESTRUCTURING PROCESS

### 8 Main actors

- EMCs' Debt Defaults
- IMF DSSI
- Paris Club
- Non-OECD country creditors
- London Club & Menu of options
- Bondholders
- Distressed debt funds and « Vulture Funds »
- NGOs and Debt swaps

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## Why and how a country defaults on its debt?

### What is a « weak » State?

**A «WEAK STATE » IS UNABLE OR UNWILLING TO PROVIDE COMMON GOODS AND MAINTAIN SOCIAL COHESION THROUGHOUT THE PROCESS OF DEVELOPMENT DUE TO INSTITUTIONAL LOOSENESS**

**INSTITUTIONAL WEAKNESSES GENERATE A CRISIS OF SOCIAL MEDIATIONS: PARTIES, UNIONS, INSTITUTIONS AND LOCAL ELITES LOSE CREDIBILITY FOR ADDRESSING SOCIAL FRUSTRATION AND DEMANDS, HENCE RISING TENSIONS AND LOWER VOTER TURNOUT**

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## THE KEY INGREDIENTS OF STATE FRAGILITY

1. Weakness of institutions
2. Bad governance & corruption
3. Stubborn Income & wealth gaps
- 4. Debt dependence**
5. Limited socio-economic freedom
6. External pressures

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## COVID 19 AND OFFICIAL DEBT REDUCTION INITIATIVES TOWARD THE POOREST AND MOST CORRUPT COUNTRIES

**February 2015**, the IMF transformed the **Post-Catastrophe Debt Relief Trust** to create the Catastrophe Containment and Relief Trust (CCRT), broadening the range of situations to include fast-spreading epidemics. March 2020, the IMF adopted a set of reforms to the CCRT to enable the Fund to provide immediate debt service relief for its poorest and most vulnerable members affected by the current COVID-19 pandemic and any future pandemics.

The trust provides grants to pay debt service owed to the IMF for eligible low-income member countries that are hit by epidemics or global pandemics.

**October 2021:** The IMF Executive Board Extends **Debt Service Relief for Low-Income Countries**

The Executive Board of the International Monetary Fund opened a fourth tranche of debt service relief from the Catastrophe Containment and Relief Trust for 24 member countries with eligible debt falling due in the period through January 10, 2022

**May 2020:** The World Bank and the International Monetary Fund urged G20 countries to establish **the Debt Service Suspension Initiative** to helping countries concentrate their resources on fighting the pandemic.

The initiative has delivered more than \$5 billion in relief to more than 40 eligible countries.

In all, 73 countries are eligible for a temporary suspension of debt-service payments owed to their official bilateral creditors. Eligibility: Per capita income is below the IDA's operational cutoff = US\$1,185 per capita

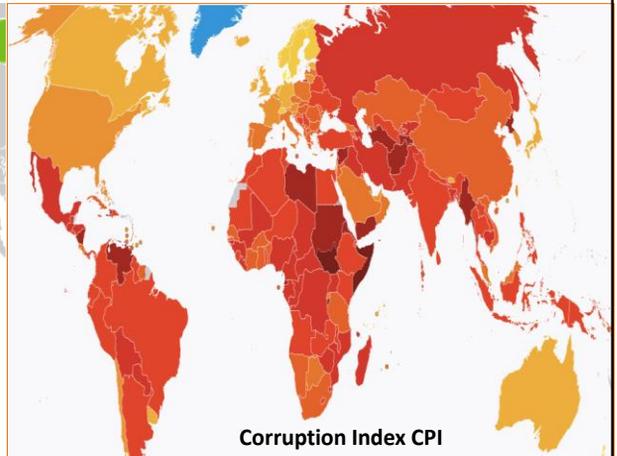
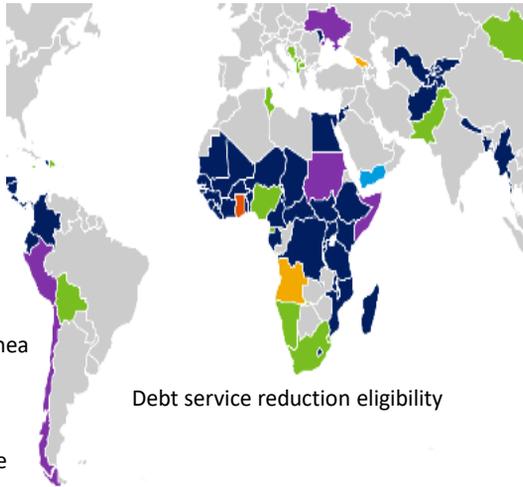
The G20 has also called on private creditors to participate in the initiative on comparable terms.

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## COVID 19 AND OFFICIAL DEBT REDUCTION INITIATIVES TOWARD THE POOREST AND MOST CORRUPT COUNTRIES

- Angola
- Burundi
- Afghanistan
- Burkina
- Cameroon
- CAR
- Chad
- Comores
- Congo
- Congo Rep
- Ivory Coast
- Djibouti
- Ethiopia
- Gambia Guinea
- Madagascar
- Mali
- Mauritania
- Mozambique
- Manyar



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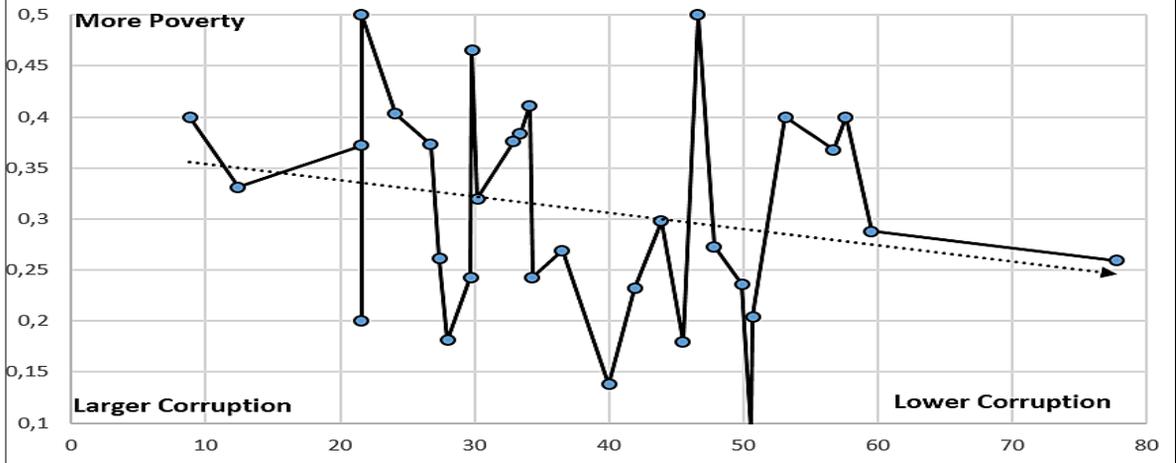
## THE GOVERNANCE OF DEBT REDUCTION FOR 31 ELIGIBLE DEVELOPING COUNTRIES?

### Opinion piece: Financial institutions and developing countries' debt cancellations: How to get rid of moral hazard?

Received (in revised form): 5th February, 2021

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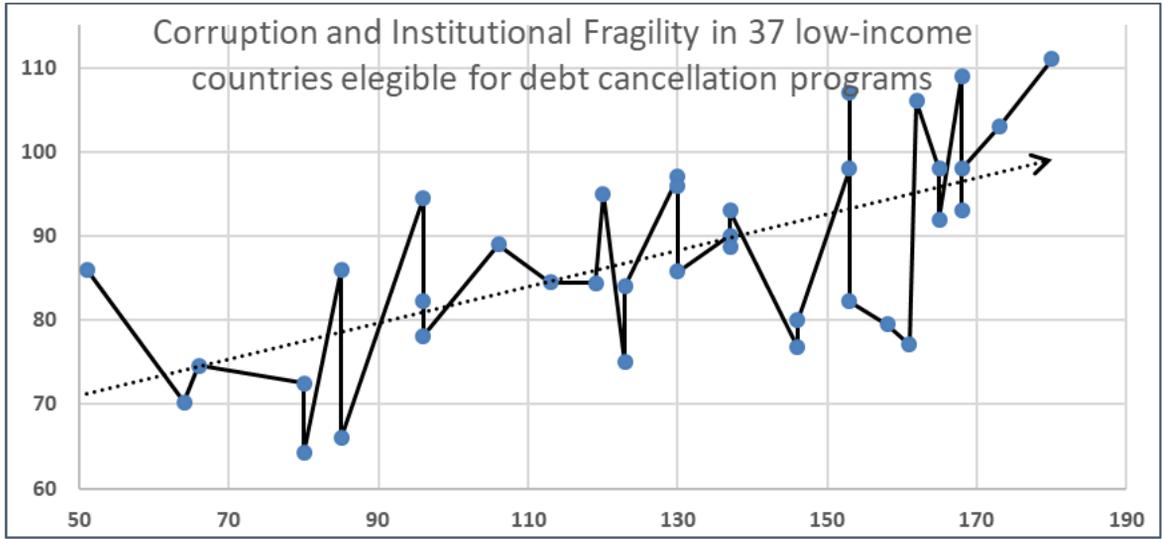
**Relationships Poverty and Corruption sub-Saharan Africa**



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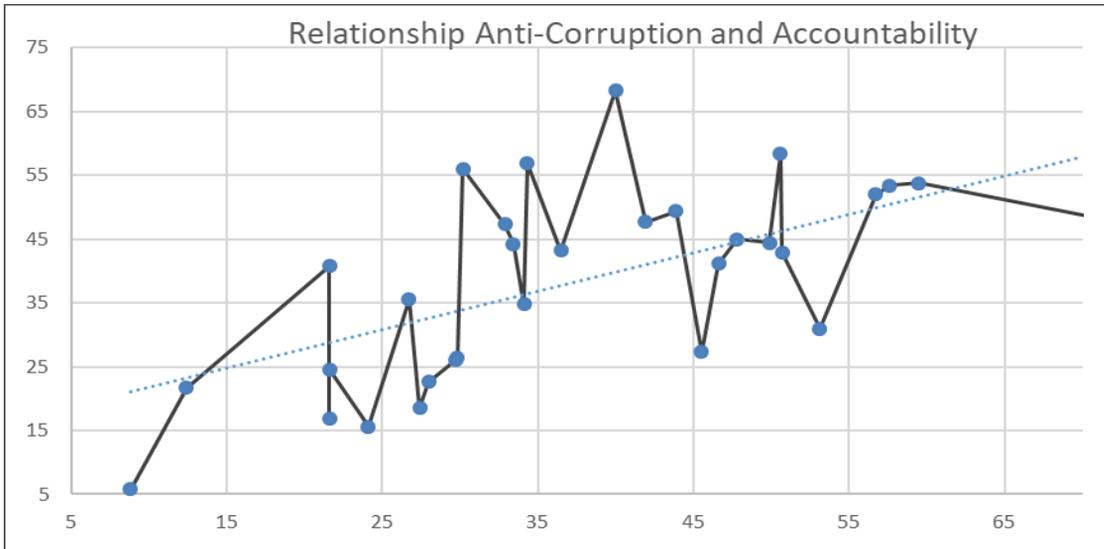
**RELATIONSHIPS BETWEEN CORRUPTION AND INSTITUTIONAL FRAGILITY INDICES  
(37 LOW-INCOME COUNTRIES IN AFRICA AND LATIN AMERICA)**



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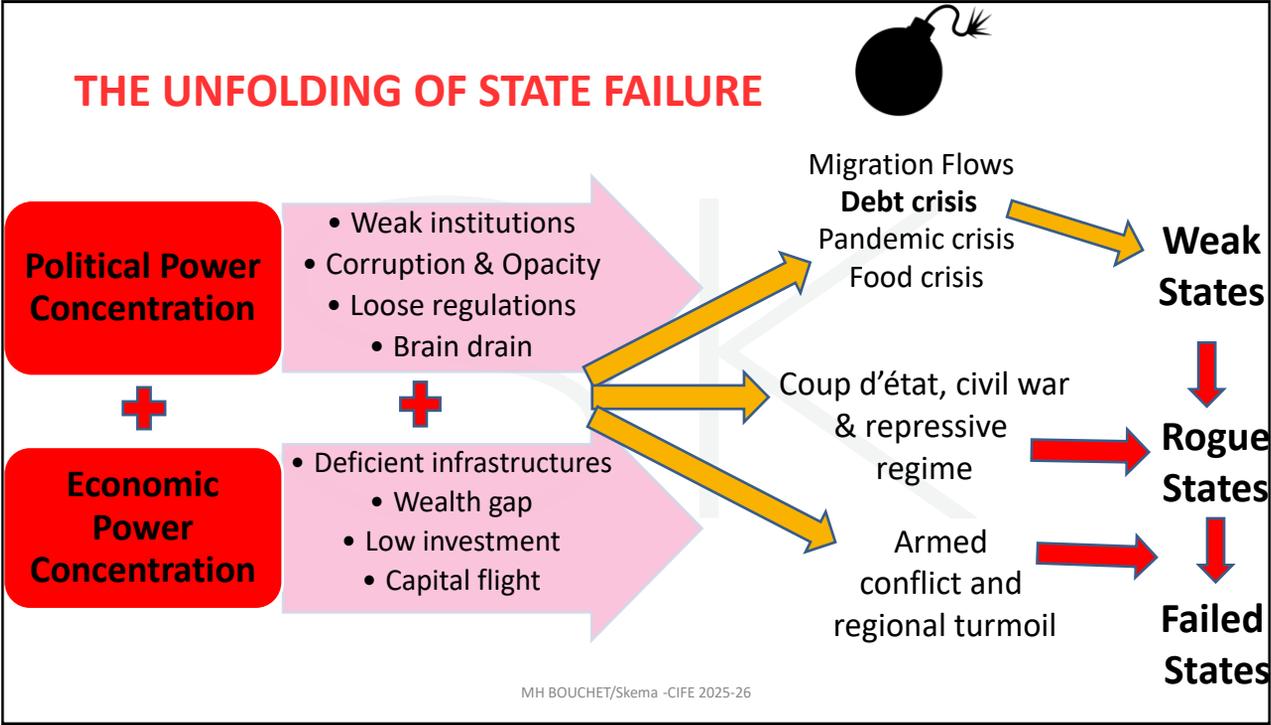
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**RELATIONSHIPS BETWEEN CORRUPTION (LEFT) AND TRANSPARENCY AND  
ACCOUNTABILITY (BOTTOM)**



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IMF LENDING AND DEBT REDUCTION SUPPORT ARE NOT RELIABLE SIGNALS OF GOOD GOVERNANCE!

### Table 1. IMF lending, military spending and governance

		Military spending		IMF SDR b.	% Share of	Ranking	Ranking	Governance
		% GDP	% Govt spendin	Total Lending	IMF Lending	Peace Index	Corruption CPI	Barometer
				119,30	100%	163	180	130
1	<b>Argentina</b>	0,60%	1,30%	41,79	35,0%	46	99	38
2	<b>Ukraine</b>	3,4%	5,8%	10,21	8,6%	162	105	61
3	<b>Pakistan</b>	2,80%	14,50%	7,50	6,3%	144	151	78
4	<b>Ecuador</b>	2,30%	6,10%	6,93	5,8%	129	121	58
5	<b>Egypt</b>	1%	4,20%	6,73	5,6%	107	130	69
6	<b>Ivory Coast</b>	0,90%	4%	3,69	3,1%	94	69	53
7	<b>Kenya</b>	1%	4,20%	2,96	2,5%	127	121	54
8	<b>Bangladesh</b>	1,10%	8%	2,89	2,4%	123	151	66
9	<b>Angola</b>	1,33%	5,53%	2,65	2,2%	76	121	97
10	<b>Ghana</b>	0,50%	2%	2,56	2,2%	61	80	32
11	<b>Jordan</b>	4,90%	14,50%	2,06	1,7%	72	59	29
12	<b>DR Congo</b>	1,30%	7%	1,93	1,6%	160	163	121
13	<b>Sri Lanka</b>	1,60%	7%	1,63	1,4%	97	121	44
14	<b>Ethiopia</b>	0,80%	7,50%	1,59	1,3%	138	99	95
15	<b>Tanzania</b>	1,20%	6%	1,34	1,1%	73	82	56
16	<b>Cameroon</b>	1,10%	5,60%	1,23	1,0%	137	140	103
17	<b>Zambia</b>	1,30%	5%	1,13	0,9%	64	92	77
18	<b>Morocco</b>	3,64%	11,10%	0,94	0,8%	85	99	30
19	<b>Senegal</b>	1,50%	5,50%	0,93	0,8%	69	45	40
20	<b>Colombia</b>	3,40%	8,30%	0,47	0,4%	140	92	39
					84,8%			

**Sources:**  
 Source 1: IMF <https://www.imf.org/external/npr/in/tad/balnov2.aspx?type=TOTAL> \* as of 12/2025  
 Source 2: SIPRI <https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS?locations=JO>  
 Source 3: SIPRI  
 Source 4: <https://worldpopulationreview.com/country-rankings/military-spending-by-country>  
 Source 5: TI CPI, UNDP HDI, CIFE Governance Barometer

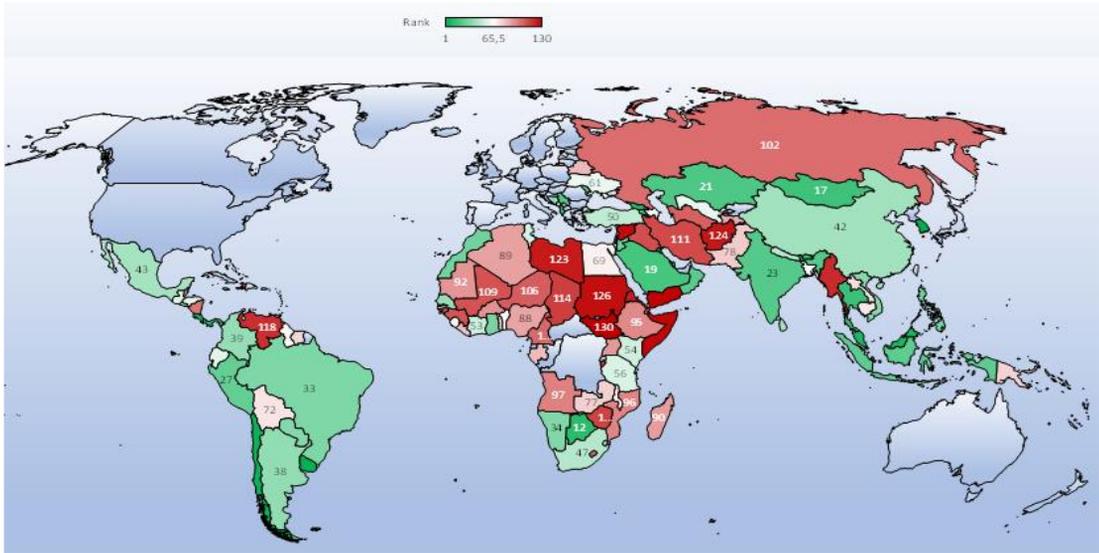
Sources: IMF, World Bank, Vision of Humanity, Transparency International, and SIPRI.

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DEFI/CIFE Global Governance Barometer

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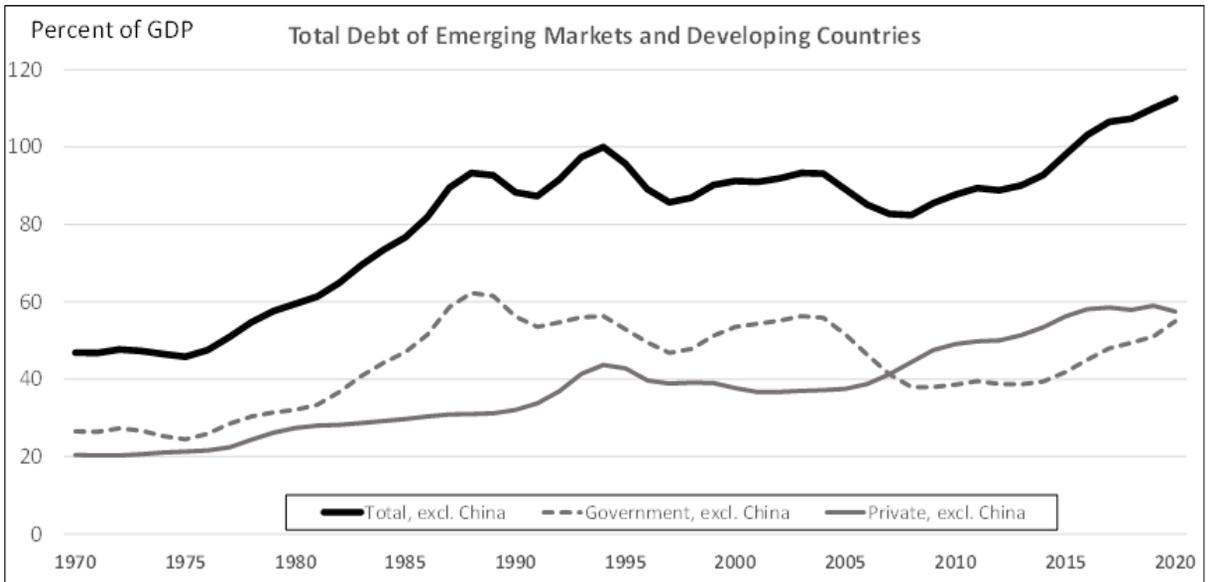
**SINCE THE MID-1980s, DEBT REDUCTION HAS BENEFITTED TO THE WORST GOVERNANCE PERFORMERS**



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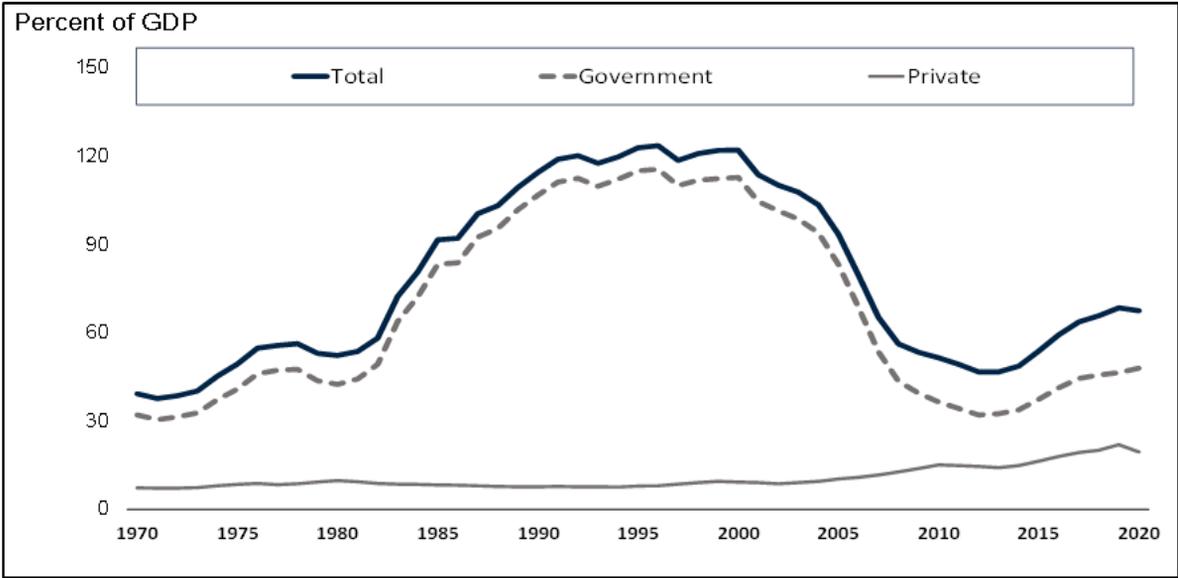
**Emerging markets debt in % of GDP**



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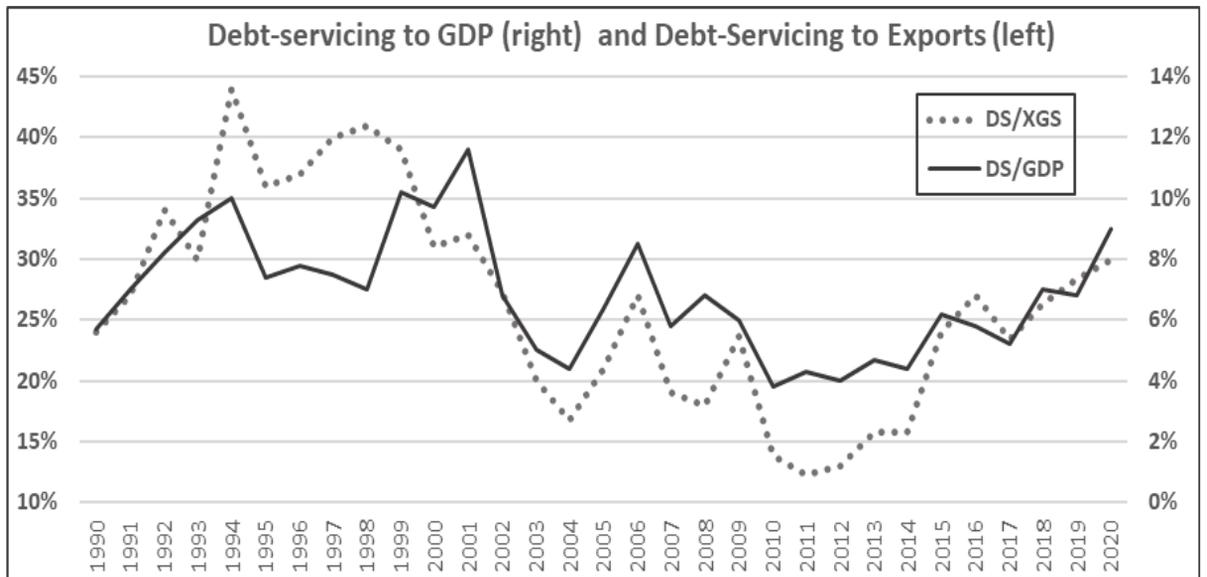
### Low-income countries' total debt in % of GDP



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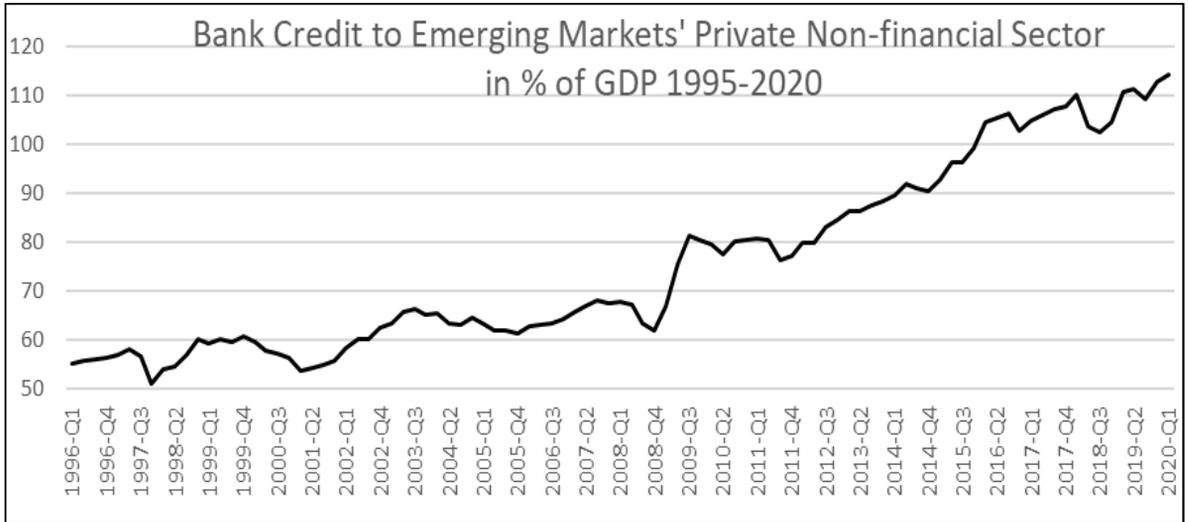
### Liquidity (left axis) and Solvency Ratios (right axis) for sub-Saharan African countries



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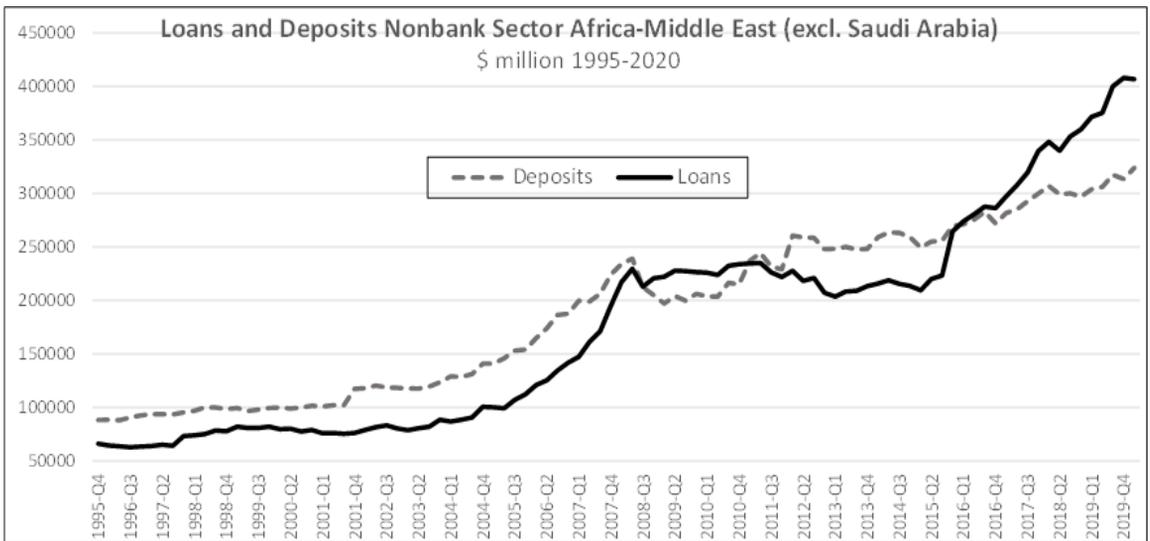
**BANK LOANS TO THE PRIVATE SECTOR OF EMERGING MARKET COUNTRIES IN % OF GDP**



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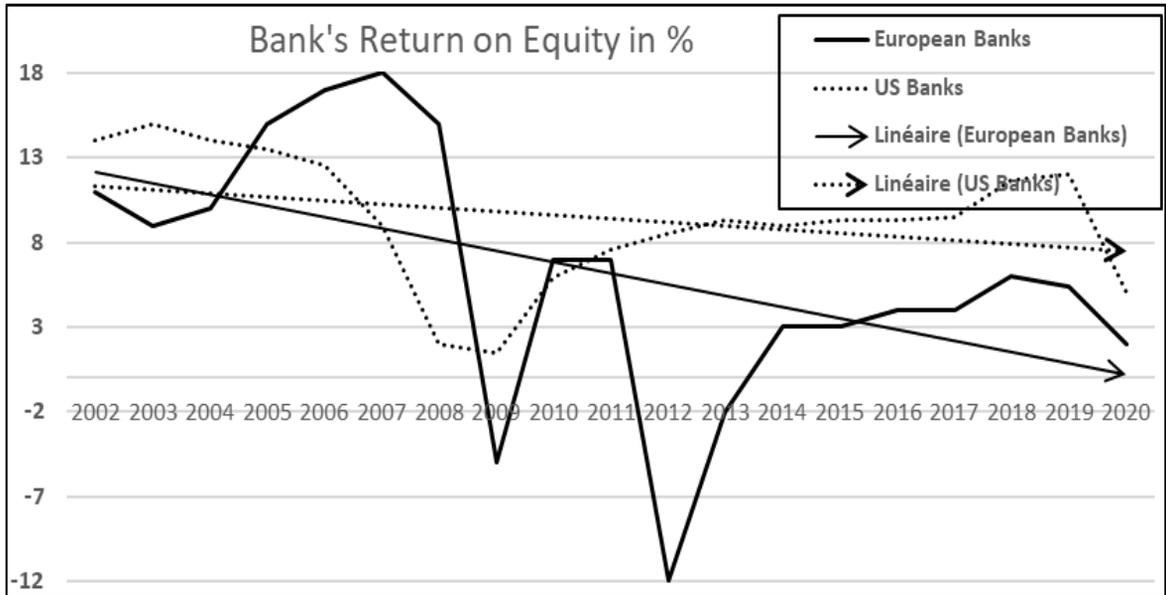
**FLOWS OF BANK LOANS AND DEPOSITS OF THE PRIVATE SECTOR FROM AFRICA AND MIDDLE-EAST COUNTRIES (EXCLUDING SAUDI ARABIA)**



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## DECLINING BANKING PROFITABILITY RATIOS



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## WHY DOES CAPITAL FLIGHT DESERVE SO MUCH ATTENTION?

- Symptom of institutional weakness (opacity, corruption, weak banking system, savings mobilization)
- **Reflection of bad governance and corruption?**



### New research and policy focus

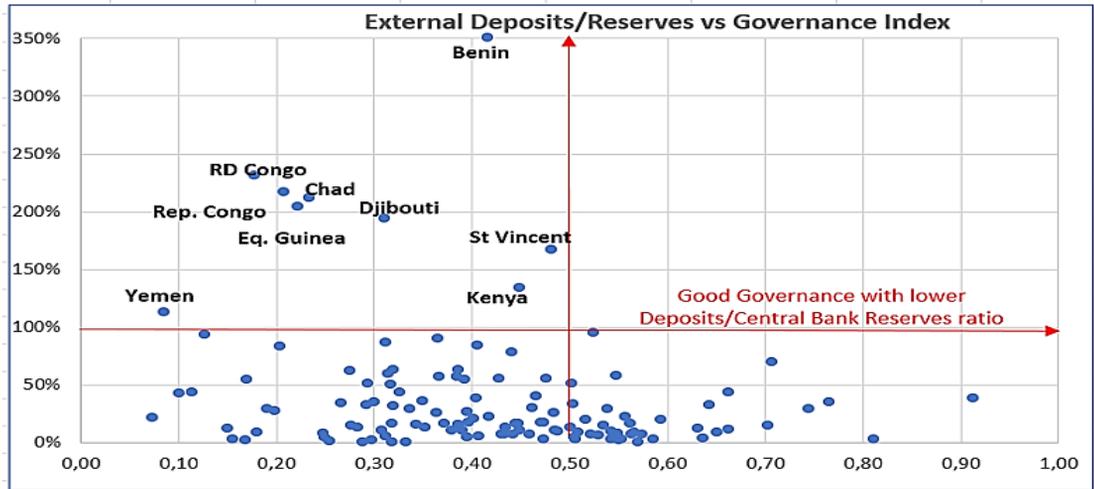
(Lessard/Williamson, Dooley, Cuddington, Bouchet/Gros Lambert, Collier, Cerra, Boyce/Ndikumana, Bouchet/Seto, & Bouchet/Kharrat/Feki 2021)

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## WEAK BANKING SYSTEMS ARE STRONG PUSH FORCES FOR PRIVATE EXPATRIATED SAVINGS

**Figure 3. The ratio of international bank deposits to reserves and governance**



Source: CIFE Global Governance Barometer

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## MUCH OF EXTERNAL FINANCING GETS RECYCLED INTO PRIVATE DEPOSITS IN INTERNATIONAL BANKS!

Banks' cross-border positions on residents of Developing Africa and Middle East

Source: [https://data.bis.org/topics/LBS/tables-and-dashboards/BIS,LBS\\_A6\\_1,1.0?dimensions=L\\_CP\\_COUNTRY%3A4W](https://data.bis.org/topics/LBS/tables-and-dashboards/BIS,LBS_A6_1,1.0?dimensions=L_CP_COUNTRY%3A4W)

End-2024: African Countries

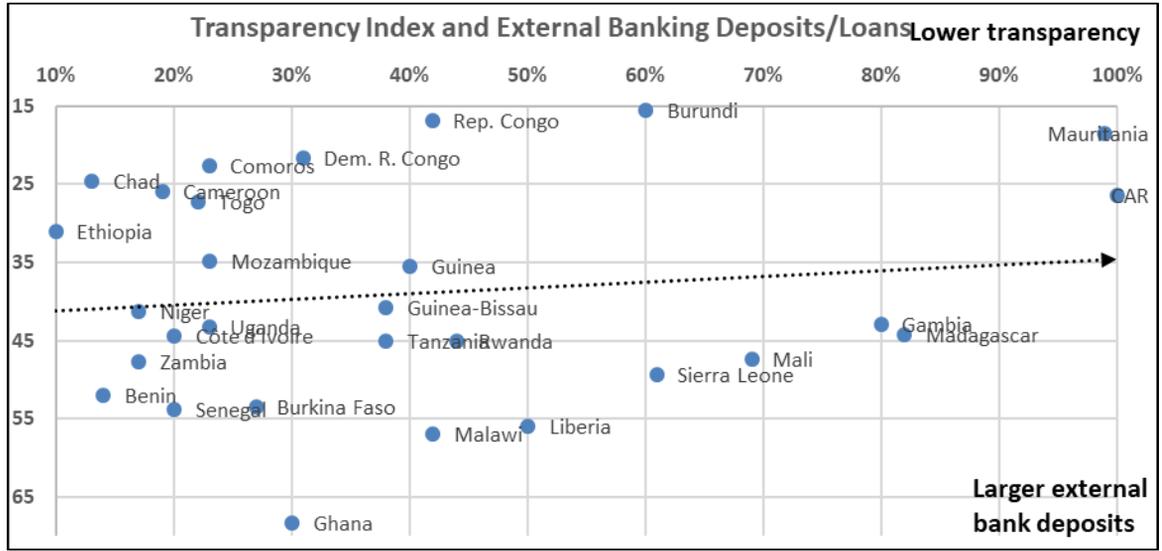
Ratio Offshore Deposits/Credits

<b>Claims on,</b>			
<b>Non-Financial Sector</b>	<b>422,723</b>		
<b>Claims on</b>	<b>43,714</b>		
<b>Households</b>			
<b>Liabilities</b>	<b>360,412</b>	<b>85%</b>	
<b>Non-Financial Sector</b>			
<b>Liabilities on</b>	<b>182,89</b>	<b>418%</b>	
<b>Households</b>			

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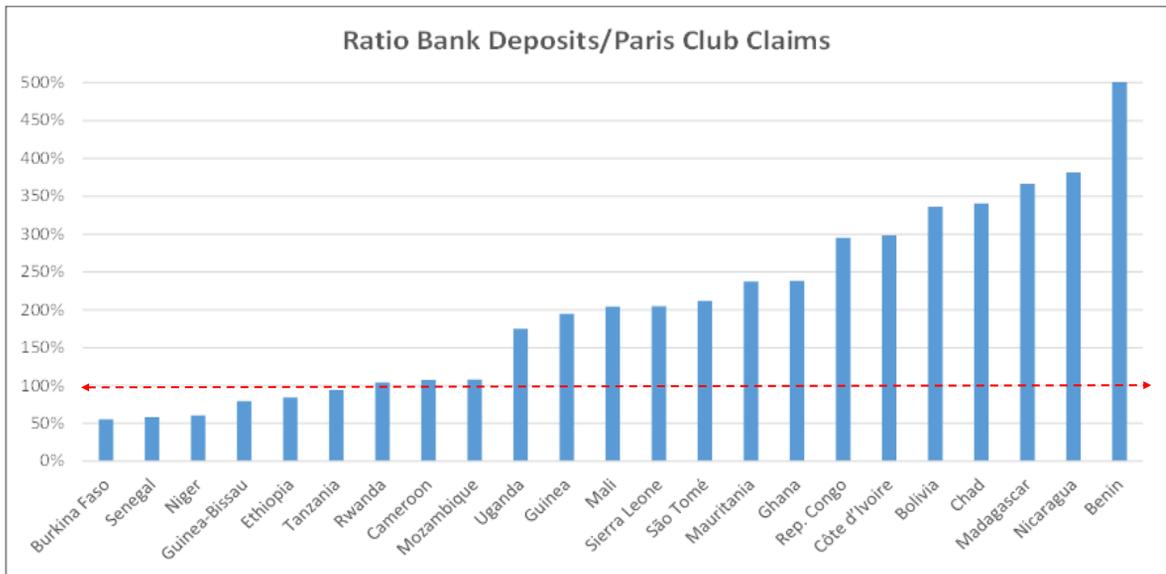
RELATIONSHIP BETWEEN TRANSPARENCY (LEFT) AND RATIO OF EXTERNAL PRIVATE DEPOSITS/BANK LOANS



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RATIO OF PRIVATE DEPOSITS IN INTERNATIONAL BANKS TO PARIS CLUB CLAIMS



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## IN SEARCH OF CAPITAL FLIGHT DATA 2014-2023?

**Banks' cross-border positions on residents of Italy**  
Outstanding at end-June 2022, in millions of US dollars

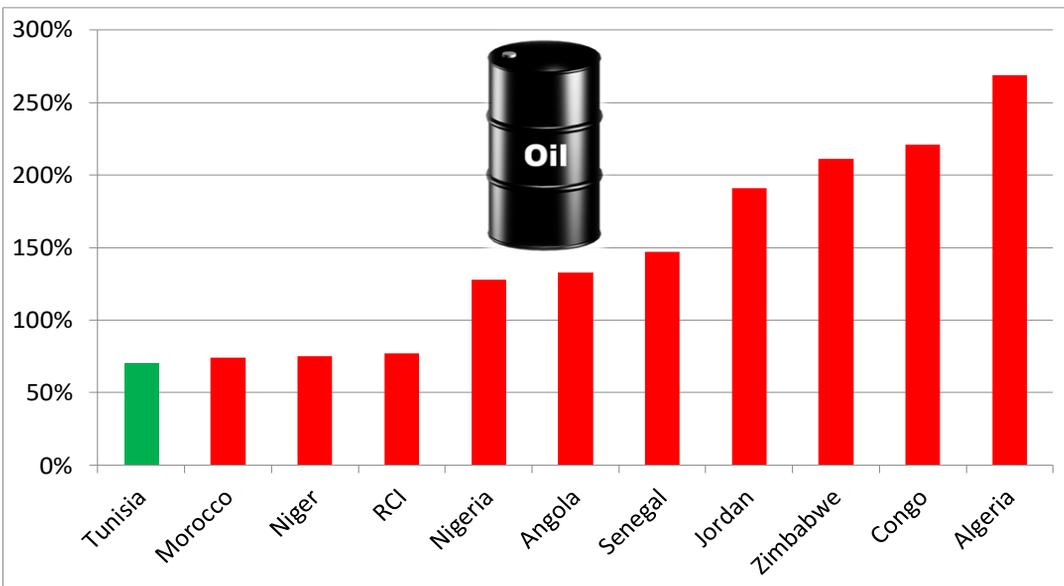
Italy	Non-bank financial		Non-financial sector					
			Total		Non-financial corporations		Households	
< Q2 2022 >	Claims	Liabilities	Claims	Liabilities	Claims	Liabilities	Claims	Liabilities
Level: <a href="#">1</a> <a href="#">2</a> <a href="#">3</a> <a href="#">4</a>	Q2 22	Q2 22	Q2 22	Q2 22	Q2 22	Q2 22	Q2 22	Q2 22
<input checked="" type="checkbox"/> Cross-border positions	180,196	53,561	229,397	73,476	52,009	30,477	5,470	20,990
<input checked="" type="checkbox"/> By instrument								
Loans and deposits	147,993	40,712	50,662	59,701	36,436	28,215	5,423	20,233
Debt securities	19,549	1,081	138,393	269	6,599	25	...	158
Other instruments	12,655	11,603	7,273	12,505	8,960	2,080	47	33
Unallocated		-1	33,069	1,001	14	133	0	566

**Banks' cross-border positions on residents of Italy**  
Outstanding at end-December 2014, in millions of US dollars

Italy	Non-bank financial		Non-financial sector					
			Total		Non-financial corporations		Households	
< Q4 2014 >>	Claims	Liabilities	Claims	Liabilities	Claims	Liabilities	Claims	Liabilities
Level: <a href="#">1</a> <a href="#">2</a> <a href="#">3</a> <a href="#">4</a>	Q4 14	Q4 14	Q4 14	Q4 14	Q4 14	Q4 14	Q4 14	Q4 14
<input checked="" type="checkbox"/> Cross-border positions	36,346	24,573	195,634	37,634	35,245	18,015	4,385	15,241
<input checked="" type="checkbox"/> By instrument								
Loans and deposits	18,152	23,339	28,146	35,044	20,908	17,501	4,361	15,063

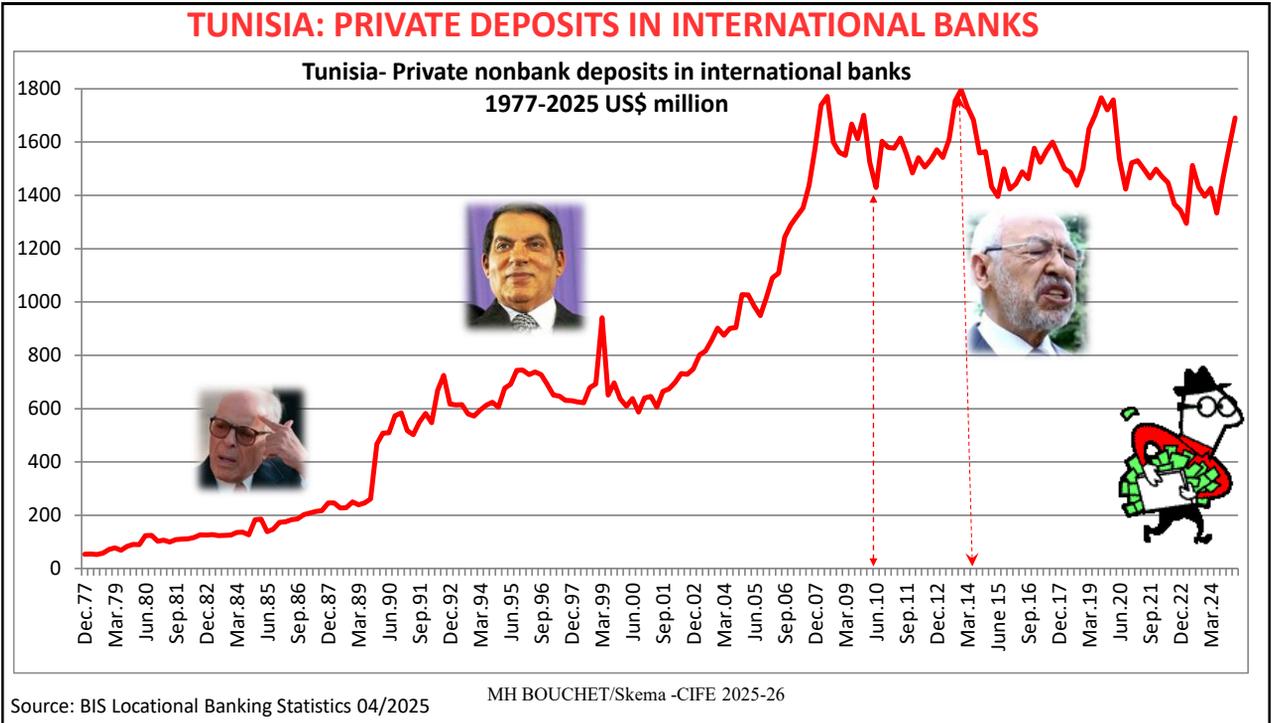
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## RATIO OF PRIVATE EXTERNAL DEPOSITS TO PRIVATE BORROWING

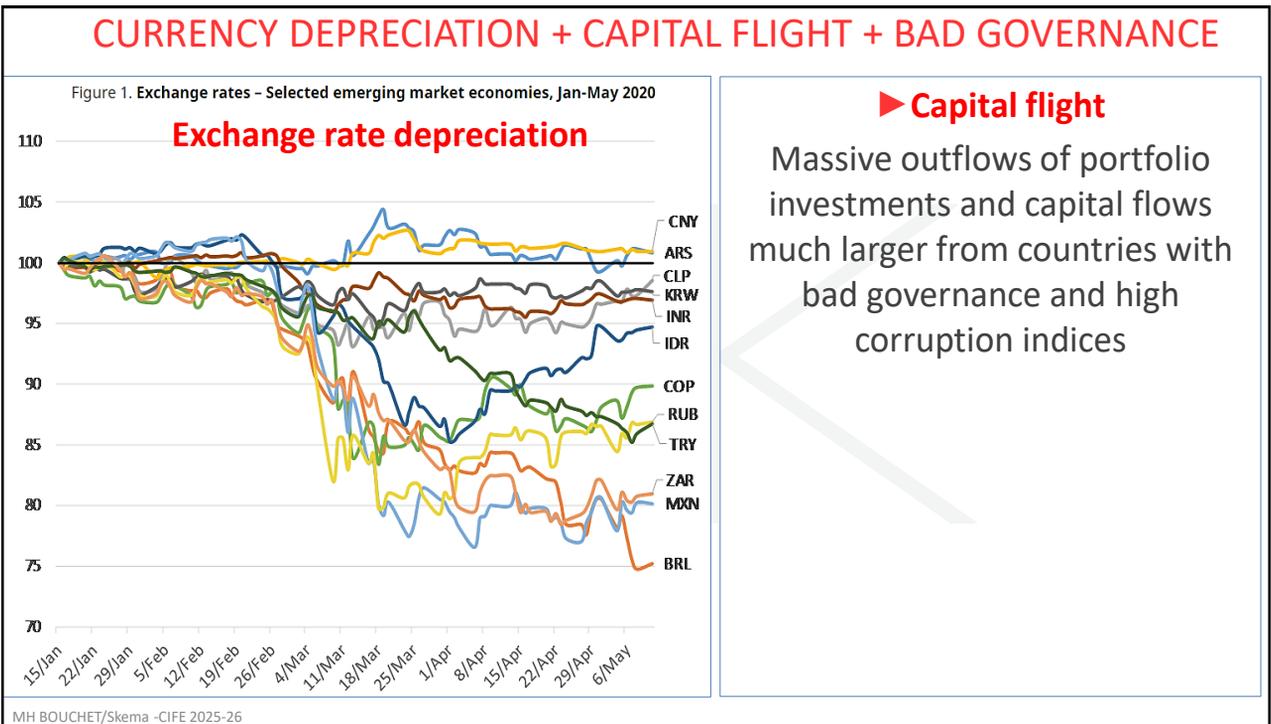


UNCTAD estimates that \$90 billion per year leaves Africa in the form of illicit capital flight, with Nigeria accounting for 50% of total capital flight

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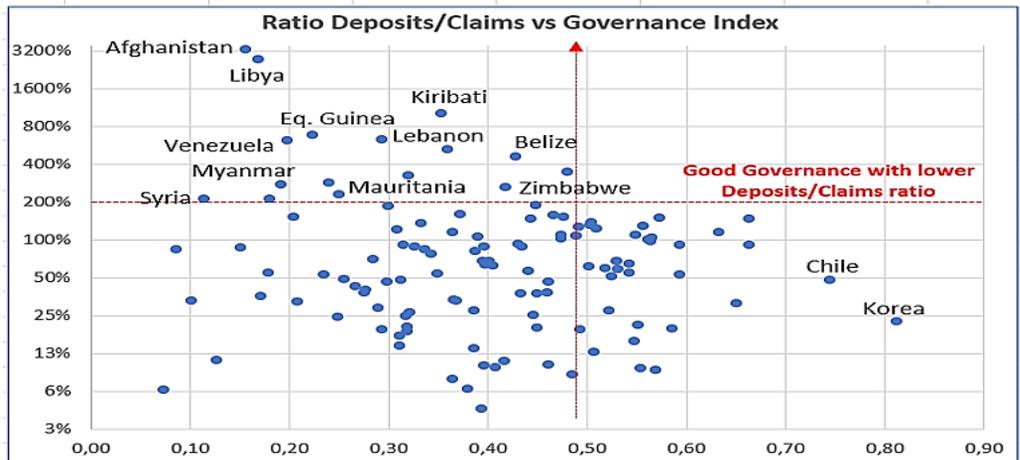
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**THE WORSE THE GOVERNANCE INDEX,  
THE LARGER EXPATRIATED PRIVATE BANK DEPOSITS**

**Figure 4. Bank deposits relative to claims and governance**



Source: CIFE Global Governance Barometer

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*BOUCHET & GROSLAMBERT ECONOMETRIC ANALYSIS:*  
**KEY ROLE OF GOVERNANCE & INSTITUTIONAL VARIABLES**

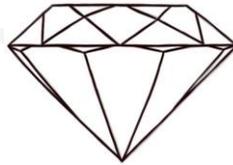
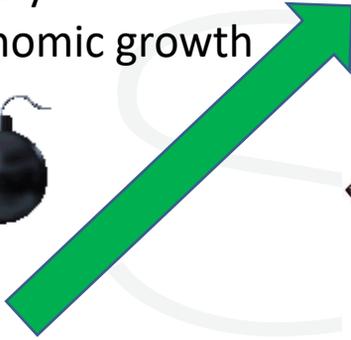
- ✓ a 1% increase in **Governance** (quality of government ) will reduce by 1.5% the flow of capital flight/GDP, on 99% level of confidence
- ✓ a 1 % increase in **Civil Liberty** is associated with 1% decrease in capital flight
- ✓ A 1% increase in **External debt** (capital inflows) leads to a 2,1% rise in capital flight (revolving door & recycling syndrome)
- ✓ A 1% increase in conditional **development aid** leads to a 0,2% reduction in capital flight

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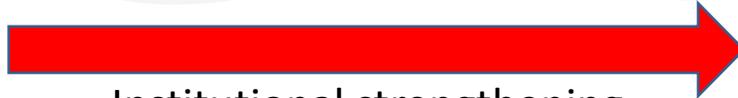
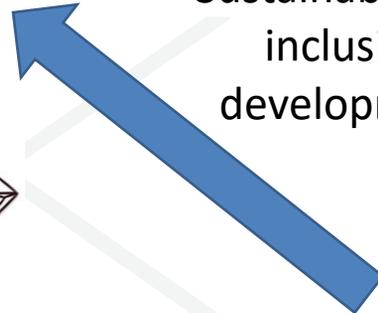
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## THE REQUIRED SOCIO-POLITICAL STABILITY TRIANGLE

Dynamic  
economic growth



Sustainable and  
inclusive  
development



Institutional strengthening

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