Honest Accounts 2017
How the world profits from Africa’s wealth

$203 billion OUT

$41 billion extracted each year

$162 billion IN

Global Justice Now
Health Poverty Action
Jubilee Debt Campaign
Uganda Debt Network

Integrated Social Development Centre
Groundwork
People’s Health Movement Kenya
Profiting from Africa’s wealth

Africa is rich – in potential mineral wealth, skilled workers, booming new businesses and biodiversity. Its people should thrive, its economies prosper. Yet many people living in Africa’s 47 countries remain trapped in poverty, while much of the continent’s wealth is being extracted by those outside it.

Research for this report calculates the movement of financial resources into and out of Africa and some key costs imposed on Africa by the rest of the world. We find that the countries of Africa are collectively net creditors to the rest of the world, to the tune of $41.3 billion in 2015. Thus much more wealth is leaving the world’s most impoverished continent than is entering it.

African countries received $161.6 billion in 2015 – mainly in loans, personal remittances and aid in the form of grants. Yet $203 billion was taken from Africa, either directly – mainly through corporations repatriating profits and by illegally moving money out of the continent – or by costs imposed by the rest of the world through climate change.

• African countries receive around $19 billion in aid in the form of grants but over three times that much ($68 billion) is taken out in capital flight, mainly by multinational companies deliberately misreporting the value of their imports or exports to reduce tax.

• While Africans receive $31 billion in personal remittances from overseas, multinational companies operating on the continent repatriate a similar amount ($32 billion) in profits to their home countries each year.

• African governments received $32.8 billion in loans in 2015 but paid $18 billion in debt interest and principal payments, with the overall level of debt rising rapidly.

• An estimated $29 billion a year is being stolen from Africa in illegal logging, fishing and the trade in wildlife/plants.

There are other ways in which the rest of the world extracts resources from Africa, but for which figures are not available; for example, trade policies mean that unprocessed agricultural goods are often exported from African countries and refined elsewhere, causing the vast majority of their value to be earned abroad.

The figures show that the rest of the world is profiting from the continent’s wealth – more so than most African citizens. Yet rich country governments simply tell their publics that their aid programmes are helping Africa. This is a distraction, and misleading.

Our figures comprise both the movement of financial resources and two categories of costs imposed on African countries by the rest of the world. First, there

The 2017 and 2014 reports

This updated Honest Accounts follows the first version published in 2014. This calculated, for the first time, the movement of all the main financial resources into and out of Africa, mainly using 2012 figures. It found that $134 billion entered the continent this year, mainly in the form of loans, foreign investment and aid. However, some $192 billion was taken out, mainly in profits made by foreign companies, tax dodging and the costs of adapting to climate change. Africa was found to suffer a net deficit of $58 billion a year.

The figure in the present report is slightly smaller, largely because of the fall in international prices for raw materials, the main export of most African countries, since mid-2014. This has led to reductions in government holdings of international reserves and lower (but still significant) multinational company profits taken out of the continent. In addition, there are now more loans to African governments, another inflow, although this of course comes at the cost of future debt payments and possibly debt crises (Ghana and Mozambique are countries already back in debt crisis).

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i. In this report we use ‘Africa’ to refer to the 48 countries classified as ‘sub-Saharan Africa’ by the World Bank. We have chosen not to use the term ‘Sub-Saharan Africa due to the numerous problems associated with this term. However we recognise that ‘Africa’ is also problematic given that this report does not include North Africa.
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**Net annual deficit: $41.3 billion**

NB. A more detailed and referenced version of this table is in the appendix.

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is the cost to African countries of adapting to climate change: a process which has been overwhelmingly caused by richer industrialised and industrialising countries, not Africa – amounting to $10.6 billion a year. Then there is the cost to Africa of mitigating climate change – to reorient African economies onto a low carbon path - again due to the need to tackle climate change: the annual cost here is even greater, at $26 billion. These costs are included since they entail expenditure – a loss of resources – by Africa for processes which it has largely not been responsible.

### Time to rethink

Those claiming to help Africa need to rethink their role. Their priority should be: ‘first do no harm’. Yet much harm is currently being done. In particular, billions continue to be stolen from African citizens through insufficient global action to curb tax dodging. The British government bears special responsibility in this since it sits at the head of a giant network of overseas tax havens (perhaps more accurately described as secrecy jurisdictions) facilitating this theft – something that could easily become a greater problem post-Brexit. Other rich countries are also failing to curb the tax dodging practices of their multinational companies.

The second priority of outsiders should be to reconfigure aid as ‘reparations’ for the ongoing extraction of wealth and other damage being done. The level should be set at the level of the damage, not some arbitrary rate set by governments out of their own ‘generosity’. Beyond that, redistribution of wealth is important for any society, as a means of addressing injustices and ensuring everyone can live a dignified life. A current problem with ‘aid’ is that it casts Western countries in the role of benevolent benefactors, giving their wealth to poor countries. But exactly the opposite is true. As Jason Hickel of the London School of Economics has written, aid currently does not exist in any meaningful sense, given the actual flows of wealth.

The current extraction of wealth from the poor to the rich world is a continuation of historical trends. In his book *Capitalism and Colonial Production*, Hamza Alavi estimates that the resource flow from India to Britain between 1793 and 1803 was around £2 million a year, the equivalent of many billions today. The British academic theologian Robert Beckford has given a rough estimate that Britain extracted an astronomical £7.5 trillion in wealth from African countries due to the slave trade.
Africa is rich

Africa is not poor. Whilst many people in African countries live in poverty, the continent has considerable wealth. A key problem is that the rest of the world, particularly Western countries, are extracting far more than they send back. Meanwhile, they are pushing economic models that fuel poverty and inequality, often in alliance with African elites.

Africa is generating large amounts of wealth and, in some ways, is booming. For example, the largest 500 African companies recorded a combined turnover of $698 billion in 2014.9 In 2015, countries in Africa exported $232 billion worth of minerals and oil to the rest of the world.10 The value of mineral reserves in the ground is of course even larger - South Africa’s potential mineral wealth is estimated to be around $2.5 trillion11 while the untapped mineral reserves of the Democratic Republic of Congo are estimated to be worth an astronomical $24 trillion.12

These are very large numbers but various reasons explain why the majority of people in Africa do not benefit from them, and why the present mode of minerals extraction actually leads to impoverishment. These include:

Foreign companies take most of the profits generated by Africa’s natural wealth

When multinational companies export commodities such as minerals from African countries, their governments often benefit only marginally, receiving very little tax revenue from those companies. In key sectors such as mining and oil and gas, companies tend to pay low taxes, and/or are given tax incentives that reduce them still further. Companies are anyway easily able to avoid paying the taxes that are due, because of their use of tax planning through tax havens. Many African tax policies are the result of long standing policies of Western governments insisting on Africa lowering taxes to attract investment.

Money is leaving Africa partly because Africa’s wealth of natural resources is simply owned and exploited by foreign, private corporations. In only a minority of foreign investments do African governments have a shareholding; even if they do this tends to be small, usually around 5-20%.13 A recent report for War on Want found that 101 companies listed on the London Stock Exchange control an identified $1.05 trillion worth of resources in Africa in just five commodities – oil, gold, diamonds, coal and platinum. These 101 companies have mineral operations in 37 African countries and are mainly British, with 59 incorporated in the UK. However, some 25 of the 101 LSE-listed companies are incorporated in tax havens, principally the British Virgin Islands, Guernsey and Jersey.14

Corporations stealing wealth

The $68 billion stolen from Africa in illicit financial flows amounts to around 6.1% of the continent’s entire GDP. Multinational companies are stealing $48.2 billion alone through ‘trade misinvoicing’15, according to figures produced by Global Financial Integrity.16 Previous research by the UN Economic Commission for Africa found similar figures – that multinational companies stole around $40 billion a year from African countries through trade misinvoicing in the decade up to 2010.17

Another massive problem is corporations buying concessions at falsely knocked-down prices, often linked to corruption and to tax havens. In 2013, the Africa Progress Panel and Global Witness examined five major sales of mining rights in the Democratic Republic of Congo in which each deal involved firms registered in the British Virgin Islands. They found the firms paid at least $1.36 billion below the market value – almost double what the DRC spends each year on health and education combined.18
Africa’s poverty is much deeper than the World Bank likes to publicise

The poverty of ordinary Africans is under-reported and rising. The figures most widely cited are those from the World Bank, which states that the number of ‘extremely poor’ people in Africa has increased to 388 million now compared with 284 million in 1990 (although the percentage has fallen, from 56% to 43%). However, the World Bank defines the ‘extremely poor’ as those living on $1.90 a day or less. This is misleading since someone living on $2 a day is clearly still extremely poor. Whilst such poverty lines are problematic and essentially arbitrary, when higher thresholds are considered, the scale of poverty becomes much larger:

• The World Bank notes that 67% of Africans live on $3.10 a day or less – around 670 million people.
• The World Bank has also said that 65% of Africans lived on $3.10 a day or less in 2013 – around 615 million people. This compares to 500 million in 1999. So on this reckoning, more than 100 million Africans have become poor so far in the 21st century.

Others estimate even higher figures. The African Development Bank estimated in 2011 that 82% of Africans lived on less than $4 a day – this would amount to over 800 million people.

The fact that African poverty is this overwhelming – and rising – shows the urgency with which the system of extracting wealth from Africa must be reversed.

Those controlling tax havens are enabling the theft of Africa’s wealth

Africa’s people are effectively robbed of wealth by a process that enables a tiny minority of Africans to get rich by allowing wealth to flow out of Africa. Thus, according to a recent report on African wealth, there are now around 165,000 High Net-Worth Individuals living in Africa, with combined holdings of $860 billion. In 2016, there were 24 billionaires in Africa with a combined wealth of $80 billion. Where do these people mainly keep their wealth? In traditional, low tax and secretive offshore holding centres such as the Channel Islands, Switzerland and the UK.

Gabriel Zucman, an academic at the London School of Economics, estimated in 2014 that rich Africans were holding a massive $500 billion offshore (i.e., in tax havens) – amounting to 30% of all Africa’s financial wealth. The fact that this wealth is untaxed means that African elites have stolen $15 billion from their own countries, according to Zucman’s conservative estimate.
The key task is to dismantle the system extracting wealth from Africa. This requires action by African civil society organisations to press for change in their countries, and action by civil society organisations in the countries that are enabling this wealth extraction to take place, such as the UK. Global elites have no intrinsic interest in changing a system that benefits them. It is critical for civil society organisations to expose the role of multinational corporations and Northern governments in impoverishing Africa and to step up their work in building coalitions to end tax dodging and other unfair resource transfers out of Africa.

We highlight nine policies that are needed to help reverse the resource flows (although this list is not exhaustive):

1. **Promote economic policies that genuinely lead to equitable development.**
   
   Africa’s economy has been growing at 5% in recent years but poverty remains deep and is rising, showing how current models of economic growth are not generally benefitting the poor. For decades, Western governments have been encouraging or forcing African governments to promote trade and investment liberalisation and privatisation, as though opening up economies is an end in itself. These policies have mainly enriched foreign investors – but have not tended to benefit Africa’s people. African governments must be allowed and helped to promote development models that: fairly create and redistribute wealth, create jobs for citizens, promote social welfare, ensure the progressive taxing of the rich, and protect natural resources and ecosystems and the rights and livelihoods of the communities who rely on them. Economic policies that nurture domestic companies over foreign investors are likely to have the greatest development impacts. In East Asia, which has spectacularly reduced levels of poverty in recent decades, a key policy was state intervention to nurture and develop domestic industries. This often involved imposing protectionist trade barriers to keep out foreign competitors, until the point when those industries were strong enough to compete in world markets.28

2. **Reconfigure ‘aid’ as reparations to – at least – compensate for the wealth extracted from Africa.**
   
   An independent international process is needed to specify the degree to which individual countries are responsible for extracting wealth from Africa. This process must include evaluations of all the resource flows considered in this analysis, including the costs associated with adapting to and mitigating climate change. African academic and civil society organisations could undertake analyses of the movement of resources between their countries and the rest of the world. Progress should be made towards a true international aid system that is not based on voluntary donations but on reparations for damages caused.

3. **Transform aid into a process that genuinely benefits Africa.**
   
   Currently, much ‘aid’ from Western governments, which we count here as ‘inflows’, actually contributes more to outflows from Africa: aid that pushes privatisation in key sectors (such as public services), free trade or unfettered private investment can simply open up economies even further to exploitation by foreign companies. If aid is to benefit Africa, it must be delinked from Western corporate interests and be based on African priorities negotiated through open processes in country. To ensure this, there must be much greater national and international scrutiny over cooperation programmes.

4. **Stop multinational companies with subsidiaries in tax havens operating in Africa.**
   
   Governments in North and South should stop prevaricating on action to address tax havens. No country should tolerate companies with subsidiaries based in tax havens operating in their country. In addition, Stock Exchanges, such as that in London, should not permit companies to be listed unless they can show that their structures do not use tax havens and are fairly paying taxes in all locations.
5. **Enable transparent and responsible lending.**

Loans to governments can be a source of funds for useful investments, but too often they are given irresponsibly. Private lenders are encouraged to act irresponsibly because when debt crises arise, the IMF, World Bank and other institutions lend more money, which enables the high interest to private lenders to be paid, whilst the debt keeps growing. Laws are needed to ensure all loans to governments are transparent when they are given, particularly in the US and UK under whose laws over 90% of international loans to governments are given.\(^{29}\) And a fair, independent and transparent debt restructuring process should be created within the UN to require lenders to cancel debts when needed. Such a process was supported by 136 countries at the UN in 2015, and opposed by just six: the US, UK, Germany, Japan, Canada and Israel.\(^{30}\)

6. **African governments must stop putting their faith in the extractives sector, or where it does continue, ensure it pays a fair share of tax.**

The existence of the ‘resource curse’ is now widely accepted: the paradox that, with a few exceptions, countries with abundant mineral wealth, fossil fuels and other non-renewable natural resources experience poorer democracy, weaker economic growth, and worse development outcomes than countries with fewer natural resources. Even the World Bank now notes that ‘as the share of national wealth from extractives increases, human development outcomes are worse’.\(^{31}\) Some countries are beginning to recognize this through legislation.\(^{32}\) African governments should deprioritize extractives and focus on promoting other forms of economic activity that foster sustainable and inclusive growth. If and where extractive sectors do continue, they must be made to pay a fair share of tax and the costs of the negative damage they cause.

7. **Governments outside Africa must provide compensation to Africa to cover the costs of climate change as well as taking much greater steps to end their fossil fuel addiction.**

Current promised levels of funding to help Africa adapt to and mitigate climate change are grossly inadequate and amount to Africa continuing to pay for the rest of the world’s environmental damage. Richer industrialised and industrialising countries must agree and deliver urgent binding cuts in their emissions, in line with their historical contribution to the problem of climate change and their present day resources, as well as the long-promised financial compensation to countries like those in Africa that have done little to cause the problem.

8. **African governments should insist on companies promoting extensive ‘local content’ policies.**

If African countries are to benefit from foreign investment and retain the potential benefits of these operations in country, they need to insist that companies employ and train a large percentage of their staff from the country and buy a large proportion of the goods and services locally. This requires legislation, and implementation of that legislation, to ensure company conformity with laws, not a reliance on voluntary promises by companies.

9. **Sections of the media and NGO community need to stop falsely claiming that Western countries, including the UK, are playing generally positive or ‘leadership’ roles in international development.**

Instead, they must expose the reality of Western countries’ financial relations with Africa and focus advocacy efforts away from aid, towards addressing the root causes of poverty and inequality.
## INFLOWS

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References

1. The report uses figures for 2015 where possible. However, some figures are averages over previous years where we believe such average figures are more accurate than single year figures.

2. This is a practice known as trade misinvoicing (sometimes also called trade mispricing) - a method for moving money illicitly across borders which involves deliberately misreporting the value of a commercial transaction on an invoice submitted to customs. ‘Trade misinvoicing’, http://www.gfintegrity.org/issue/trade-misinvoicing/


4. It should also be noted that it is not possible to be strict about what constitutes an ‘inflow’ and an ‘outflow’. Many of the ‘inflows’ counted here may not constitute real inflows of resources. For example, much aid does not ‘flow’ to a country but rather to host countries’ companies or consultants (even if it is not formally tied aid). Also, much foreign investment in African countries may not constitute a flow as such; for example, a gold mining company might ‘invest’ $100m but spend $75m of that on external suppliers of equipment, benefiting non-African countries. This investment might still benefit a country of course (but equally can harm it, since much foreign investment can harm the environment or human rights, for example) but is not a flow to it as such.


8. BBC Documentary, The Empire Pays Back


14. Ibid.

15. This is a practice known as trade misinvoicing (sometimes also called trade mispricing) - a method for moving money illicitly across borders which involves deliberately misreporting the value of a commercial transaction on an invoice submitted to customs. ‘Trade misinvoicing’, http://www.gfintegrity.org/issue/trade-misinvoicing/


25. In fact, the World Bank quietly admits that ‘it is also important to point out that living conditions well above the International Poverty Line can still be characterized by poverty and hardship’ and that ‘it would be wrong to think that a person living on a little more than 1.90 international dollars is not poor’. ‘World Poverty’, https://ourworldindata.org/world-poverty/

26. The World Bank says the percentage of people living on less than $3.10 a day has fallen from 77% in 1999 to 65% in 2013. World Bank, World Development Indicators database.


28. See, for example, Ajit Singh, ‘How did East Asia grow so fast ?’, November 1994, https://mpra.ub.uni-muenchen.de/53435/1/MPRA_paper_53435.pdf


32. For example, in April 2017, El Salvador became the first nation to impose a blanket ban on metal mining in order to protect water supplies, livelihoods, and long-term ecological sustainability.

33. Net private grants to all regions were $36.8 billion in 2015. There is no figure for Africa or sub-Saharan Africa. In 2014 32% of official ODA was to sub-Saharan Africa. So if we use this percentage for private grants, it is $11.8 billion. https://stats.oecd.org/Index.aspx?DataSetCode=TABLE1

34. Between 2014 and 2015, Africa’s international reserve holdings decreased by $20.7 billion. This has therefore become an inflow to Africa rather than an outflow. Calculated from World Bank, World Development Indicators database accessed 31/01/17 http://data.worldbank.org/data/reports.aspx?source=world-development- indicators which gives total reserves in 2014 of 50.4% of external debt stocks, and external debt stocks of $400 billion, making total reserves $201.7 billion. In 2015, total reserves are 43.5% of external debt stocks, and external debt stocks are $416.3 billion, making $181 billion, a fall of $20.7 billion.


38. UNCTAD figures are that inward FDI to Africa in 2015 was $41.2 billion and outward was $9.3 billion, so the net figure is $31.9 billion. However, this includes loans which are counted above. Figures from the World Bank suggest that 78% of private lending is FDI. This means there was $16.1 billion of loans. Removing this from $31.9 billion leaves $15.8 billion of FDI equity. http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx


41. Table ‘Aid (ODA) disbursements to countries and regions [DAC2a]’, http://stats.oecd.org/Index.aspx?ThemeTreeID=3&lang=en. OECD grant aid to Africa was $23.0 billion in 2015. However, not all this is a flow to African countries. A recent analysis by Concord notes that in 2015, 17% of EU aid did not reflect a real transfer of resources to developing countries, because it went to “in-donor” refugee spending, debt relief, student costs, tied aid and interest payments. (Concord, Aidwatch Report 2016, p.6, https://concordeurope.org/wp-content/uploads/2016/10/CONCORD_AidWatch_Report_2016_web.pdf?c1e422). We have used this as a general proportion and deducted 17% ($3.9 billion) off the grant aid figure to reach $19.1 billion.

42. Table ‘Aid (ODA) disbursements to countries and regions [DAC2a]’, http://stats.oecd.org/Index.aspx?ThemeTreeID=3&lang=en

43. This figure is an estimate. Total reserves were $180 billion. If interest on these average 1%, payments will have been $1.8 billion. World Bank, World Development Indicators database, accessed 31/01/17

44. World Bank, World Development Indicators database, accessed 31/01/17. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators This says total external debt service in 2015 was $27.8 billion. External debt service, private nonguaranteed, was $9.8 billion. This leaves $18 billion as public external debt service.

45. World Bank, World Development Indicators database, accessed 31/01/17. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators This says primary income on FDI in 2015 was $32.4 billion.


51. Research by ODI shows that the average cost of transferring money is 7.8 per cent. We assume in the table this money stays in Africa, although some of it may not. ODI, Lost in Intermediation: How excessive charges undermine the benefits of remittances for Africa, April 2014

52. See previous Honest Accounts, p.21 for notes and sources


54. See previous Honest Accounts, p.19 for notes and sources


56. UNEP estimates that current adaptation costs for Africa (up to 2020) from past greenhouse gas emissions are $7-15 billion a year (and that costs will rise rapidly after 2020). The median is therefore $11 billion. (UNEP, Africa’s Adaptation Gap, 2013, p.vii, http://www.unep.org/pdf/AfricaAdapationGapreport.pdf) Subtracting the adaptation costs incurred by the 4% of global emissions currently attributable to Africa leaves $10.6 billion. See previous Honest Accounts, p.25 for further notes and sources.

57. The African Development Bank states that the costs of putting Africa on a low-carbon growth path could reach $22-30 billion per year by 2015 (and $52-68 billion per year by 2030) – thus the median figure for up to 2015 is $26 billion. ‘Climate change economics and finance for Africa’, http://www.afdb.org/en/cop/programme/africa-day/climate-change-economics-and-finance-for-africa/. See previous Honest Accounts, p.25 for further notes and sources.