Honest Accounts?
The true story of Africa's billion dollar losses

We are the kind of people who believe in doing what is right... We accept the moral case for keeping our promises to the world's poorest, even when we face challenges at home.

DAVID CAMERON, 08 June 2013

Africa[i] is being drained of resources by the rest of the world. It is losing far more each year than it is gaining. While $134 billion flows into the continent each year, predominantly in loans, foreign investment and aid, $192 billion is taken out, mainly in profits made by foreign companies, tax evasion, and the costs of adapting to climate change. The result is that Africa suffers a net loss of $58 billion each year. The idea that we are aiding Africa is flawed; it is Africa that is aiding the rest of the world.

Wealthy countries, including the UK, benefit from many of Africa's losses. Yet, we are led to believe that 'aid' from Britain and other rich countries to the continent is a mark of our generosity. Our research shows that this is a deception. While aid to Africa amounts to less than $30 billion per year, the continent is losing $192 billion annually in other resource flows, mainly to the same countries providing that aid. This means African citizens are losing almost six and a half times what their countries receive in aid each year, or for every £100 given in aid, the African people give £640 back. This demands that we rethink our role in addressing poverty in Africa.

i. We use 'Africa' to refer to the 47 countries classified as 'sub-Sahara 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 North Africa is not included in these figures.

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$192 billion is more than is needed annually to eliminate hunger; provide universal primary, and improved access to secondary education; affordable health coverage for a range of diseases; safe water and sanitation; and sustainable energy for everyone in the world – not just Africa.[ii]

Africa losing – the figures

Our research is, we believe, the first attempt at a comprehensive comparison[iii] of the range of resource flows in and out of Africa. We calculate the money leaving Africa every year and compare this to the resources flowing in. Our research shows that Africa loses:

- $46.3 billion in profits made by multinational companies
- $21 billion in debt payments, often following irresponsible loans
- $35.3 billion in illicit financial flows facilitated by the global network of tax havens
- $23.4 billion in foreign currency reserves given as loans to other governments
- $17 billion in illegal logging
- $1.3 billion in illegal fishing
- $6 billion as a result of the migration of skilled workers from Africa

In addition to these resource flows Africa is forced to pay a further:

- $10.6 billion to adapt to the effects of climate change that it did not cause
- $26 billion to promote low carbon economic growth

If these financial outflows and costs are compared with inflows into Africa, the result is a net annual loss of $58.2 billion. This is over one and half times the amount of additional money needed to deliver affordable health care to everyone in the world.[iv] If the rest of the world continues to raid Africa at the same rate, **over the next 10 years the African people will lose $580 billion.**

The amount of resources flowing out of Africa demands we rethink the idea that Africa is impoverished. Millions of ordinary Africans are certainly poor, but they are being kept so by a combination of bad policies and immoral or criminal activities perpetrated by elites both inside and outside the continent. And the UK and other wealthy governments are at the heart of this theft of resources.

To illustrate: The UK, widely praised for its large aid programme, is one of the top 10 global greenhouse gas emitters,[v] which imposes costs on Africa, and has benefited from large numbers of trained African health workers.[vi] UK companies are among the most active in Africa,[vii] repatriating large profits each year. Moreover, the UK has ten tax havens[viii] under its jurisdiction, presiding over the world's largest secrecy network that facilitates the theft of billions in illicit resource flows from Africa each year.

ii ODI estimates the total annual financing gap for the Post 2015 development goals is $186 billion http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8319.pdf

iii. Whilst we believe we have included all those for which reliable figures exist, there remain a number of outflows we were unable to calculate therefore these 'out' figures are a significant underestimate. The uncalculated costs include costs incurred as a result of biopiracy and other intellectual property related costs, and the migration of skilled professionals except health workers. This research also does not attempt to calculate potential losses, for example those relating to unfair trade policies or tax incentives.

iv Based on ODI estimates for the annual financing gap of $37bn to achieve the proposed Post 2015 goal of Universal Health Coverage for a range of diseases (This has some limitations such as the exclusion of treatment for non-communicable diseases discussed here http://www.odi.org/sites/odi.org.uk/files/odi-)

v US Energy Information Administration ranks the UK at number 10, http://www.eia.gov/countries/country-data.cfm?fips=UK (accessed 10/07/2014)

vi Health Poverty Action, 2013, *The Health Worker Crisis*

vii Ernst and Young ranked the UK as the top source of 'greenfield' investment into Africa in 2012 and 2nd behind the US between 2003 and 2012. Ernst and Young, *Attractiveness Survey, Africa 2013, Getting down to business* http://www.ey.com/Publication/vwLUAssets/The_Africa_Attractiveness_Survey_2013/$FILE/Africa_Attractiveness_Survey_2013_AU1582.pdf

viii ActionAid counts ten tax havens under UK jurisdiction. ActionAid, 2013, *How Tax Havens Plunder the Poor.* This figure rises to 11 if the City of London is included. In 2007, an IMF paper ranked the UK in a list of tax havens http://www.imf.org/external/pubs/ft/wp/2007/wp0787.pdf

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The aid smokescreen

Yet aid is regularly held up as the mark of our generosity in helping Africa and even sometimes as the solution to Africa's poverty. This aid smokescreen is propagated by governments, the media and even NGOs ourselves, with a fraudulent narrative that regards wealthy governments and citizens as benevolent donors, while Africa is simply 'poor' – often helplessly so – and in need of 'Western Saviours'. This dichotomy of 'Powerful Giver' and 'Grateful Receiver'[2] breeds a myopia that reinforces global power inequalities.

The obsession with aid is obscuring the reality of this vast flow of resources out of Africa. Notions of aid and charity are in reality aiding politicians and multinational corporations to continue plundering Africa behind a shroud of 'generosity'. It is preventing governments from being held accountable for policies that have a far greater impact on Africa and diverting attention from the structural changes needed to eliminate poverty and gross inequality.

> **The white saviour supports brutal policies in the morning, founds charities in the afternoon, and receives awards in the evening.**
>
> **@tejucole, Twitter, 8 March 2012**

Supporting Africa to address its developmental challenges means exposing the aid smokescreen, and changing the principal policies that damage the continent.

It is time for the British government, politicians, the media, and NGOs ourselves to stop misrepresenting our 'generosity' and take action to tackle the real causes of poverty. This includes urgent government action to close down the UK's network of tax havens; an end to the plundering of African resources by multinational companies, an end to 'aid' as loans and greater transparency and accountability in all other loan agreements, and ambitious and far-reaching climate change targets.

Annex – Full table with calculations

Inflows to sub-Saharan Africa

This table measures financial flows in and out of sub-Saharan Africa. There are a number of outflows for which data does not exist; therefore this is if anything an underestimate of the costs to Africa. In addition, the figures make no judgement on whether those flows are good or bad, we do not for example assume all inflows are good and outflows are bad. For example, foreign 'investment' can mean the take-over of domestic companies while some aid can promote donor interests. Thus the table further underestimates, if anything, the real outflows from, and costs to, Africa.

Category	**Annual amount** (billions)	**Reference / year of figure** (2012 unless otherwise stated)	**Explanation**
Official aid from OECD	$29.1	OECD[3] (Average for 2009-11)	Aid given by governments in OECD[4] countries to Sub-Saharan Africa. This was $44.0 billion (an average of the three years 2009-11).[5] However, not all this is a resource flow to African countries, so our figure deducts certain types of 'aid', amounting to 14% of the total.[6] In addition, some 'aid'[7] is in the form of loans (which are included elsewhere in this flow table). Thus the $44.0 billion figure is reduced first to $37.9 billion and then to $29.1 billion.
Official aid from non-OECD countries	$0.4	DAC, Development Cooperation Report 2013 Figures for 2011	This is aid from governments outside of the OECD. This is an estimate since there is no official figure. Aid from China, Brazil and South Africa amounted to $3.3 billion in 2011.[8] China may provide around 40% of its aid in the form of grants.[9] Overall, we estimate that a third of non-OECD aid is in the form of grants, or $1.1 billion. In terms of aid to Africa, 35% of aid from OECD countries goes to Africa. If we use the same proportion, the total figure for non-OECD countries would be around $0.4 billion.
Net private grants	$9.9	OECD[10] (Average for 2009-11)	These are private grants, for example from NGOs. Total private grants averaged $28.2 billion in the three years 2009-11.[11] There is no figure for Africa; we assume the flow is the same as the percentage of OECD aid to Africa (35%), thus the annual figure is $9.9 billion.
Loans to governments	$23.4	World Bank, World Development Indicators database[12]	Loans are given by institutions such as the IMF and World Bank, private lenders including banks, and foreign governments such as Japan. This links to illicit flows (see outflows section) since for every $1 lent, 60 cents flows back out again in illicit capital flight.[13]

Loans to private sector (both FDI and non-FDI)	$8.3	World Bank, World Development Indicators database[14]	Lending from all sources to the private sector in Sub-Saharan Africa
Net portfolio equity	$16.2	World Bank, World Development Indicators database	Portfolio equity includes net inflows from equity securities other than those recorded as direct investment and including shares, stocks, depository receipts (American or global), and direct purchases of shares in local stock markets by foreign investors.[15]
Net FDI equity	$23.2	UNCTAD, World Investment Report	Foreign Direct Investment is investment made by a company, often a multinational based in one country, into a company or entity based in another country. The companies making this investment usually have significant control over the company and must have at least 10% of the voting power. FDI) takes two forms, 'greenfield' relating to investment that establishes new production facilities, such as a company that sets up a new factory, or 'Brownfield' cross border mergers and acquisitions, the takeover of existing businesses. This figure is FDI minus loans, which are counted above. Net FDI (Inward – Outward) to sub-Saharan Africa was $29.8 billion, according to UNCTAD. However, this is both loans and equity. Figures from the World Bank suggest that 78% of private lending is FDI, hence $23.2 billion.
Inward remittances	$18.9	World Bank, Migration and Remittances Factbook, 2011; ODI	Inward remittances from individuals to families in sub-Saharan Africa[16] minus charges on those transfers.[17]
Debt payments received	$4.3	Based on World Bank, World Development Indicators database (see explanation)	Interest received from foreign exchange reserves (see outflows section). African governments will normally have to pay a much higher interest rate on the borrowing they undertake than on the money they lend in order to acquire reserves. This means they are losing money each year. Total foreign exchange reserves of sub-Saharan Africa were $215 billion. We could not find any official figures for the amount African governments receive in interest each year on their reserves, but have estimated $4.3 billion a year, based on an average interest rate of 2% on the total of $215 billion of reserves. Principal payments are not included as these are covered by the increase in reserve figures in the outflow.
Total:	**$133.7**		

Outflows from and costs to sub-Saharan Africa

Category	Annual amount (billions)	Reference / Year (2012 unless otherwise stated)	Explanation
Debt payments	$21.0	World Bank, World Development Indicators database	These are the annual payments on loans (see inflow table). These figures cover debt payments by both the public and private sectors.
Increase in international reserve holdings	$25.4	World Bank, World Development Indicators database	All governments hold reserves in foreign currencies that enable them to buy imports and pay foreign debts if their own revenues from exports shrink. These reserves are acquired primarily by lending to governments whose currencies are used in international trade such as the US dollar, Euro, Yen, and the British pound. This figure is the annual increase in the money lent by African governments to other governments (i.e. held in reserves outside Africa).
Multinational company profits	$46.3	World Bank, World Development Indicators database	This is the amount of profits that foreign companies operating in Africa take out of the continent.[ix] These are payments of direct investment income which consist of income on equity (dividends, branch profits, and reinvested earnings) and income on intercompany debt (interest).[18] This figure does not capture profits made from companies operating outside Africa. For example if a UK based company purchases coffee from an African supplier and sells in the UK for a vastly increased profit.
Illicit financial outflows	$35.3	Boyce and Ndikumana[19]	These are defined as unrecorded capital flows between a country and the rest of the world. It includes flows that result from illicit transactions including money laundering, tax evasion, trade mis-invoicing and unrecorded remittances. The figure given is a net figure (accounting for capital entering countries) and is an average for 2000-10.[20]
Outward remittances	$3.0	World Bank, Migration & remittances handbook	Individuals' remittances out of Africa ($3.3 billion) minus transfer charges[21]
'Brain drain'	$6.0	See next column	This refers to (a) the costs of training health professionals who emigrate plus (b) the costs to Africa of employing Western experts to fill skills gaps. There is no authoritative overall figure. Africa is estimated to spend $4 billion a year to employ Western experts[22] due to around 20,000 professionals leaving Africa for work in industrialized countries each year.[23] *[cont...]*

ix It also should be noted that many foreign companies pay very low rates of tax in Africa, meaning that more of the profits can flow out of the continent.

'Brain drain' *[continued]*			In addition, African countries incur training costs for professionals who subsequently emigrate. There are no overall estimates so we use the figure for health workers only. Studies suggest that these costs are likely to be at least $2 billion a year.[24] Given the limitations, this is a conservative estimate.
Climate change adaptation costs	$10.6	United Nations Environment Programme[25]	This is the amount Africa has to spend to adapt to the impacts of climate change, such as heat waves, water shortages, flooding and loss of biodiversity. The rest of the world (outside Africa) is historically responsible for virtually all greenhouse gas emissions, imposing costs on Africa.[26] The United Nations Environment Programme estimates that current adaptation costs for Africa (up to 2020) from past GHG emissions are $7-15 billion a year (and that costs will rise rapidly after 2020).[27] The median is therefore $11 billion. From this, we have removed the costs incurred from Africa's own share in emissions (4%) giving $10.6 billion
Climate change mitigation costs	$26.0	African Development Bank[28]	This is the costs for the necessary technology and infrastructure Africa needs to pursues a low-emissions path to development, Because of the high levels of greenhouse gas emissions (96% of these from outside of Africa) the earth has passed the point at which greenhouse gases can be safely absorbed, meaning that Africa cannot now develop in the same way as the rest of the world without serious consequences. There is no single authoritative figure for the costs of mitigation in Africa, and estimates vary. 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)[29] – thus the median figure for up to 2015 is $26 billion. Some other estimates are higher (e.g., $29.2 billion[30]) others slightly lower.[31] This figure is also reasonably consistent with other estimates for the costs of both climate change adaptation and mitigation.[32]
Illegal Logging	$17.0	Africa Progress Panel[33]	Companies engaging in illegal logging.
Illegal, unreported and unregulated fishing	$1.3	Africa Progress Panel[34]	This figure is for West Africa only, and is therefore an underestimate.
Total:	**$191.9**		

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