Symposium on IFFs: Securing the Bag - Towards Realising Just Energy Transition: A Developing Country's Perspective

By:

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May 10, 2024

Introduction

In recent times, developing countries are faced with a challenging task of balancing their commitment under various international instruments such as the Paris Agreement to achieve a Just Energy Transition and their pertinent need for industrialization and development. At the center of this contention is the knowledge that resources are scarce and must be allocated judiciously towards desired goals. The existing scarce resources are further plundered through illicit financial flows because of ineffective systems in developing countries. This essay examines the idea of a Just Transition through the lens of developing countries like African countries whose contribution to global greenhouse gas emissions have been minimal. The essay highlights access to

finance as a key component of an expedient Just Transition and highlights illicit financial flow as a threat to the realization of the Just Energy Transition among other pre-existing structural challenges. This essay calls on developing countries to tighten their ship in retaining capital and limiting the illicit exportation capital towards realizing the Just Energy Transition.

Setting the Scene

Fossil fuels have earned a controversial reputation among scholars, activists, and various stakeholders. Fossil fuels like crude oil, coal and gas have been critical agents and catalysts for industrialization and development globally. This development, however, did not come without cost. The continuous use of fossil fuels have become the largest contributor to climate change due to the emission of carbon dioxide produced during the burning of these fuels. According to the United Nations, 75% of global greenhouse gas emissions and about 90% of carbon dioxide emissions are a result of fossil fuel activities in the generation of electrical energy, manufacturing processes, deforestation, food production, household consumption, etc. Sub-Saharan African has become vulnerable to the negative consequences of climate change even though the region contributes only about 2 per cent of global emissions with South Africa contributing about 1.3% of that aggregate.

In tackling climate change as a global concern, countries have reached a consensus to lower carbon emissions and this consensus has been codified in various agreements such as United Nations Framework Convention on Climate Change (UNFCCC) of 1992, Kyoto Protocol of 2005 and Paris Agreement of 2015. State Parties to the Paris Agreement are therefore required to draw up Nationally Determined Contributions (NDC) stipulating their action plan to reduce greenhouse gas emissions in accordance with the Paris Agreement. The 195 signatories to the Paris Agreement committed towards climate adaptation, climate resilience, low greenhouse gas emissions and also pledged to dedicate finance towards this vision in support of developing countries.

Just Transition as a solution to Climate Change: Placebo or Panacea?

The Paris Agreement contemplated the special circumstances of developing countries with respect to finance and technology required to initiate and sustain the transition to cleaner energy sources with due consideration to different

people groups in the society and their peculiar needs. This ideology underpins the principle of a Just Transition. The OECD defined the Just Transition as "greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind.

Transitioning from the use of fossil fuels to achieve net-zero emissions through renewable energy developments has dire economic consequences that spiral through the energy value chain and span across various sectors such as production, manufacturing, construction, and transportation. The Transition from fossil fuel to lower and ultimately eliminate carbon emissions would lead to loss of jobs in the sectors that are heavily reliant on fossil fuel. Consequently, there is a hope that Just Transition would lead to a net provision of jobs estimated at about 14 million green jobs to be created across sectors. Again, the limitation to the industrialization of developing countries following the elimination of fossil fuels in response to the continuous pressure from the developed countries can further heighten the already uneven power relations between developing countries and developed countries. Whether Just Transition would constitute a concept or principle in international law is a debate to be undertaken in further research.

Developing countries have been identified as significant drivers for the achievement of net zero emission goals. This identification has constituted severe pressure on developing countries to leap frog from their use of fossil fuels and carbon energy sources to renewable energy with no middle ground in view. Africa for instance, is further thrown into a dilemma in the face of competing needs of development and meeting the obligations in international instrument necessary to combat climate change. It is worthy to restate that Africa contributes only about 2% of global emissions. This minimal contribution has played no role in limiting the obligations attributed to the continent during negotiations around climate mitigation, adaptation, and resilience because of Africa's vulnerabilities.

As world leaders gather at conferences such as the COP, Africa's role in achieving the commitments in the Paris Agreement are highlighted and analyzed. However, it is imperative to note that the wave of just transition may create further inequalities than it promises to reduce in addition to pre-existing

structural challenges faced by developing countries with respect to energy markets and value chain. The success of the Just Transition plan of various vulnerable countries, particularly developing countries, is dependent on access finance and technology, a capacity obviously lacking in these countries.

It's all about the money

The climate finance needs in Africa are estimated to be an average of USD 250 billion annually between 2020 and 2030. Africa's infrastructure needs are estimated at USD 130-170 billion per year with a deficit between USD 68 -108 billion. Overall Africa needs about 194 billion annually 1.6 trillion USD to achieve the sustainable development goals. In the face of these competing needs for Africa's limited resources, compliance with the Just Transition demands have become increasingly difficult.

Developed countries made a commitment through the Cancun Agreements in 2010 and further adopted under the Paris Agreement committed to raising 100 billion per year towards climate financing and just transition for developing countries. An OECD assessment of the progress of developed countries towards achieving the 100 billion goal to support developing countries reveal the mobilization of 29.5 billion in 2020 and 89.6 billion instead in 2021. While the needs of developing countries are estimated to rise to about 1 trillion per year by 2025 and 2.4 trillion between 2026 and 2030, the inability of developed countries to fulfill past obligations in this regard casts a shadow on the possibility of meeting these growing needs. Developed countries and even multilateral finance institutions have not demonstrated a readiness to respond effectively to the existing climate finance need in the developing countries.

Illicit Financial Flows as a Threat Towards Realizing Just Energy Transition

A recurring cancer threatening Africa's development amid abundant resources manifests as illicit financial flows. This is the generic term for the movement of monies across borders illegally earned, sourced, transferred or used. This can be in form of tax evasion, corruption, bribery, money laundering, terrorism financing, green washing, excessive borrowing, debt repayment evasion, faux project financing or outright theft of any kind. These activities impede a country's ability to utilize its resources to achieve sustainable development,

particularly sustainable and cleaner energy.

Tax evasion constitutes illicitly exported capital. Tax havens, though legal, also create an enabling environment for illicit financial flows from public and private persons. This has significant implications as it directly limits government's ability to generate revenue and channel same towards renewable energy projects and investments. Illicit export of capitals through this method is supported by weakened legal and regulatory environment reinforced by a lack of political will to enforce stringent mechanisms to ensure capital retention.

Corruption remains one of the biggest enablers of illicit financial flows out of Africa and poses a significant threat in the execution of climate solutions targeted towards combatting climate change effects. Corrupt practices among public officials and private persons/companies in for instance, public procurement processes, commissioning of non-existent clean energy projects to divert funds, and mismanagement of allocated funds towards renewable energy projects. Green washing or climate washing has also become an innovative way to exploit investors, consumers and other stakeholders. Green washing refers to the faux identification with or exaggeration of climate action by actors through vague and misleading communication and branding. These false statements can be used to be obtain financing in the guise of facilitating the Just Transition Plan of a country while channelling such funds towards other questionable purposes.

Illicit financial flows divert critical financial resources away from investments in renewable energy infrastructure, innovative technologies, and initiatives aimed at mitigating the adverse effects of climate change. About USD 88.6 billion is lost annually through illicit financial flows in Africa. Up to USD 50 billion is also lost through money laundering in Africa per year. These funds otherwise had the potential to support the development of cleaner energy sources and climate-resilient infrastructure. However, they are drained out of a country's financial system through illegal and illicit channels, thereby undermining the country's capacity to address their energy concerns effectively.

The diversion of illicit funds from developing countries severely impacts their ability to facilitate a Just Transition and undertake renewable energy initiatives. It also erodes investor confidence in those countries. In fact, these countries

where IFF is predominant are attractive only to investors who hope to benefit from the IFF trends since legitimate and ethical investors would ordinarily prefer business environments with formidable legal and regulatory frameworks.

On the flip side of access to finance is access to technology needed to propel clean energy innovations towards a low-carbon economy. While Africa continues to rise in prominence with respect to technological advancement, much more development is required to sufficiently develop technology to enhance production of affordable and accessible renewable energy raw materials and affordable and accessible consumption to serve more than 1.3 billion people in Africa. Baleine, the largest hydrocarbon discovery made by an energy company in Cote d'Ivoire is well on its way to becoming the first net-zero field (in terms of Scope 1 and Scope 2 emissions) in Africa. To scale this technology across the continent requires ripple investments across board bearing in mind the unique circumstances in each country in terms of topography, geography, politics, geopolitics, market structure, etc.

Conclusion

The responsibility of curbing illicit financial flows out of Africa that hamper the success of the Just Transition does not lie with African countries alone. The destination of these illicit funds are usually developed countries. Hence those developed countries have a significant role to play in investigating suspected persons, prosecuting them and repatriating recovered funds to prospective countries. Pioneering a Just Energy Transition in Africa is dependent of retention of capital on the continent and the rebuilding of deficient legal and financial systems which, albeit, aid illicit financial flows out of the continent. More importantly, acute structural challenges presented by a lack of sophisticated financial system, weak legal and regulatory mechanisms and energy poverty need to be addressed alongside the menace of illicit financial flows in reducing reliance on fossil fuels, combating climate change, and ensuring energy access for all.

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