Extractives and illicit financial flows:

Towards climate financing for a just transition

Below is a commentary on a research project conducted by Simon Rakei in 2022. It was commissioned by IFAA in fulfilment of a grant awarded by the Rosa Luxemburg Foundation. Read the full research paper on IFAA's website.

What are the possibilities for financing a just transition from fossil fuels to a green/non-carbon-based energy system in Africa? It is estimated that US$300 billion will be required over the next three decades to fully phase out coal production as we construct renewable infrastructure to electrify homes, and meet transport and agriculture needs. This is the central question posed in this new research paper prepared for IFAA by Simon Rakei. Due to length considerations, *New Agenda* has published a summary of the full research paper.

The analysis takes its inspiration and direction from a review of literature on tax justice and on the extractive sector in resource-rich countries.

The "extractive sector" is a shorthand reference to African economies that are largely dependent on raw material/ commodity exports. "The UN defines a country as dependent on commodities if they are more than three-fifths of its physical exports. Fully 83% of African countries meet that threshold, up from 77% a decade ago. Some depend on produce such as tea, but most rely on mining or on pumping oil" (*Economist* 8-Jan-22). This paper concentrates on the mining sector in Africa – setting aside oil production and agricultural exports such as old timber.

Africa is rich in the mineral resources that are particularly needed for green energy infrastructure: copper, platinum, chrome, manganese, cobalt, coltan, lithium, diamonds and nickel are among some of the minerals that span the region from South Africa to the Democratic Republic of Congo and beyond that are needed to build infrastructure for solar and wind energy.

The just transition to a lower carbon-intensive "green" economy is jeopardised by the vested interests of governments and independent power producers in Africa. Both are wedded to long-term agreements based on fossil fuel power generation, state subsidies that support a carbon-intensive economy and non-developmental electricity pricing. This means huge, guaranteed profits for companies and less, more expensive, electrical power for communities.

The paper presents evidence that the costs for a just transition to a green economy could be easily met if Africa were to stop illegal financial flows, including trade mis-invoicing and price manipulation at the point of export. Africa has the resources to fund a just transition for itself – but these are totally depleted by foreign companies – aided and abetted, one might argue, by corrupt African governments, criminal gangs and predatory elites.

An innovative aspect of the analysis is the contention that if Africa could stop the siphoning of funds to low tax jurisdictions and capture the huge illegal financial flows, this would pave the way towards a real option for a green economy financing alternative.

The author argues that "tax evasion, illicit financial flows (IFFs), base erosion and profit shifting (BEPS), particularly from the mining sector, have failed to gain adequate attention." It needs to be emphasised that IFFs and BEPS are also extremely concerning for governments in the rich countries. These are not only issues for Africa.

The policy proposal on how Africa could combat illegal financial flows from mining is for "a state-selling agency [that] would mitigate the risk of price manipulation by establishing a fair valuation model for different mineral exports so that minerals are not over- or under-valued."

IFAA thanks the Rosa Luxemburg Foundation for its support for this research project.