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Background Note on Mitigating Corruption Risks in Renewable Energy

G20 Anti-Corruption Working Group

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(as a reference document for G20 ACWG)

Introduction

The Indonesian G20 Presidency put forward the topic of mitigating corruption risks in the renewable energy sector through the Anti-Corruption Working Group (ACWG), which aimed to highlight the potential corruption risks in the sector, and actions to mitigate them, as well as good practices from member countries.

The Presidency prepared a questionnaire to collect information from G20 member and invited countries to share their corruption strategies in the renewable energy sector, as well as to determine whether and how countries are identifying corruption risks and measures to mitigate corruption risks in the renewable energy sector. In addition to the questionnaire, the Indonesian G20 Presidency also held a panel discussion on corruption risks management in the renewable energy sector during the second ACWG meeting in July 2022.

Information extracted from the questionnaire responses and the discussion were synthesised into a Background Note on Mitigating Corruption Risks in Renewable Energy. This background note serves as a reference document for G20 ACWG, which brings forward the relevance of corruption risks in the renewable energy sector, most importantly, considerations by G20 countries in tackling the risks.

Energy transitions have been highlighted as one of the essential actions to mitigate and adapt to climate change. It is expected that investments in clean and sustainable energy systems or technologies will increase significantly in the coming years to support sustainable development, and achievement of international climate objectives. According to the International Energy Agency (IEA), in order to achieve net zero emissions by 2050, global clean energy investment will increase by more than triple compared to 2020 levels, to around USD 4 trillion per year[1].

G20 member countries have shown their commitment to energy transitions. In the Joint G20 Energy-Climate Ministerial Communiqué agreed in July 2021, G20 countries worked together to accelerate clean energy transitions to tackle climate change and achieve Sustainable Development Goal (SDG) 7. In the Rome G20 Leaders' Declaration[2], the G20 agreed to cooperate on deployment and dissemination of zero or low carbon emission and renewable technologies, including sustainable bioenergy, to enable a transition towards low-emission power systems and committed to mobilize international public and private finance to support green, inclusive, and sustainable energy development.

The commitment to energy transitions also has been brought to the countries' attention in the G20 Energy Transitions Ministers' Meeting in 2022 under the G20 Indonesian Presidency. The Bali COMPACT stated that the G20 intends to work on a voluntary basis towards

[1] IEA (2021), Net Zero by 2050
[2] G20 (2021), G20 Rome Leaders' Declaration

enhanced ambitions towards clean, sustainable, just, affordable, and inclusive energy transitions that leave no one behind and promote social and economic development, while ensuring energy security, stability, accessibility, affordability, and sustainability as well as eradicating energy poverty[3].

The G20 has also acknowledged that members can significantly contribute to the reduction of global greenhouse gas (GHG) emissions[4]. As a group, G20 countries have led world markets in renewable energy investments. According to the International Renewable Energy Agency (IRENA), as of 2015, the G20 members provided 87% of the world's total renewable electricity capacity additions[5]. Not only do they dominate renewable power generation, but G20 countries are also big players in renewable energy investments, with overall investment in conditional clean energy[6] totaling at least USD 326.12 billion from January 2020 to December 2021[7]. With the large amount of investment needed, G20 countries can play a pivotal role in mobilizing capital and financing among themselves and into other emerging and less developed economies.

The urgent need to move rapidly towards net-zero targets combined with the significant scale and pace of funding and capital investments involving large corporations and governments, may create a potential risk of corruption, including domestic and foreign bribery related to renewable energy projects. As new infrastructure is built, there are also risks associated with rent-seeking behavior. The complexity grows as long-standing, vested interests in the fossil fuel sector may perceive the emerging focus on the renewable energy sector as a threat, which could foster efforts to block this transition, which would, in turn, raise its costs[8]. Therefore, it is important to strengthen the current anti-corruption frameworks and policies, including building safeguards against foreseeable corruption risks.

Private sector actors also play an important role in addressing corruption risks in their operations and supply chains of minerals. Failure to consider corruption risks may also limit or otherwise disrupt the supply of the minerals that are critical to energy transitions. Without reliable supply chains for key minerals and metals, many of which come from high-risk areas, it will not be possible to scale up clean energy technologies quickly enough to meet global climate ambitions. There are several corruption-related failings that can impact clean energy transitions. For example, potential liabilities associated with corruption can deter investment, particularly for projects in high-risk areas. Meanwhile, specific incidents, for example natural disasters, may also give rise to short-term supply disruptions with implications to the supply chains and prices which are relevant for the procurement process of renewable energy projects or critical mineral extraction. Safety and environmental failures linked to corruption could also harm workers and lead to long-term interruptions to operations. In addition,

[3] G20 (2022), The Bali COMPACT
[4] G20 (2021), G20 Rome Leaders' Declaration
[5] IRENA (2016), G20 Toolkit for Renewable Energy Deployment: Country Options for Sustainable Growth Based on REmap, page 9.
[6] Energy Policy Tracker classifies policies as 'clean conditional' if they are stated to support the transition away from fossil fuels, but unspecific about the implementation of appropriate environmental safeguards (see https://www.energypolicytracker.org/methodology/).
[7] Energy Policy Tracker (2021), G20 Countries.
[8] U4 (2020), Anti-corruption in the renewable energy sector, page 2

corruption in the mining industry and a volatile business climate appear to be associated with periodic shut-downs – and shake-downs – of mine sites producing energy transition minerals[9].

It is critical that governments ensure transparency and good governance in the renewable energy sector, and strengthen their efforts in this respect, including, if necessary, creating or strengthening supervisory functions and taking measures to mitigate corruption risks. Therefore, G20 countries, in line with their climate agenda commitments, could lead global efforts towards ensuring that the transition to renewable energy is conducted in a corruption-free manner. The G20 Anti-Corruption Working Group can assist these efforts by, among other things, exploring the potential risk of corruption in the renewable energy sector and how to mitigate it.

Corruption in the Energy Sector, Lessons Learned from the Extractives Sector and Critical Mineral Relevance

Many studies have shown how the conventional energy market is prone to corruption and other illegalities[10]. The 2014 OECD Foreign Bribery Report shows that one in five cases of transnational bribery occurs in the extractives sector[11]. The possibilities of generating considerable economic rents from energy extraction, transformation, and use, as well as the need for large capital investments, make the energy sector one of the main targets for corruption.

A robust evidence base exists which identify corruption risks in the conventional energy market along with a range of toolkits to help design out these risks at each stage of the value chain. For example, undue political influence throughout project implementation phases in the energy sector can result in the selection of unnecessary projects, over-or under designed projects, wasted resources or increased costs[12] and can deprive host countries of much-needed revenue. Many of these risks will be relevant to consider in the emerging renewables market. As a result, corruption can lead to inefficient allocation and distribution of resources.

The extractives sector, including the critical minerals industry, plays an important role in the development of renewable energy. Low-carbon technologies are more mineral intensive relative to fossil fuel technologies[13]. The increased deployment of modern renewable energy technologies increase the demand for rare earth elements and other extractive input[14]. For instance, it is estimated that the demand for copper, iron, lead, neodymium and zinc, could

[9] IEA Commentaries (9 September 2022), Why is ESG so important to critical mineral supplies, and what can we do about it?
[10] U4 (2020), Overview of anti-corruption in the renewable energy sector; OECD (2016), Corruption in the Extractive Value Chain: Typology of Risks, Mitigation Measures and Incentives, OECD Development Policy Tools; OECD (2014), OECD Foreign Bribery Report: An Analysis of the Crime of Bribery of Foreign Bribery Officials
[11] OECD (2014), OECD Foreign Bribery Report: An Analysis of the Crime of Bribery of Foreign Bribery Officials
[12] Lu, J., Ren, L., Qiao, J., Yao, S., Strielkowski, W., & Streimikis, J., 2019, Corporate social responsibility and corruption: Implications for the sustainable energy sector, page 7. Sustainability, 2019
[13] World Bank (2020), Minerals for Climate Action: The Mineral Intensity of the Clean Energy Transition, Climate Smart Mining Facility, page 11.
[14] Shi, Xunpeng, 2022, Background Paper: The Energy Transition and Extractive Industries Development in the Asia-Pacific Region, page 3, United Nations Roundtable.

increase by more than 200% by 2050[15] in order to limit the rise in global average temperature to well below 2 °C above pre-industrial levels by 2100[16]. In addition, the production of graphite, lithium, and cobalt will need to increase by more than 450% by 2050 to meet demand from energy storage technologies in a scenario with at least a 50% chance of limiting the average global temperature increase to 2°C by 2100[17].

Corruption risks, such as domestic and foreign bribery, embezzlement, and trading in influence between public and private sectors, can arise at any point along the extractive value chain. Corruption can also involve manipulation to the policy framework to benefit interested parties, misappropriation of funds, or domestic and foreign bribery of public officials to obtain contracts and licenses, evade royalties or other payments, or influence the terms of agreements and regulations. Inadequate legal systems, such as a failure to effectively criminalize and prosecute foreign bribery, as well as a lack of transparency in decision-making processes, can lead to abuse of power by public officials[18].

The lessons learned in tackling corruption in the extractives sector can be applied to the renewable energy sector, including the development of anti-corruption measures in the critical minerals industry, which should be prioritized as the clean energy transition is mineral intensive. As corruption can occur at every step of the value chain in the extractives sector, countries with abundant critical mineral deposits may be more exposed to corruption. However, corruption risks exist in mining approvals regimes of countries across the globe, irrespective of the country's stage of economic development, political context, geographic region, or the size and maturity of their mining sectors.[19]

In 2015, the G20 ACWG acknowledged the vulnerability of the extractives sector to corruption[20]. The G20 Targeted Approaches to Addressing Corruption in the Extractives Sector identifies the complexity of resource extraction, including the need for effective governance measures on actors involved in the extractives sector as some of the factors that contribute to corruption risks across the value chain. It also recognizes the corruption risks associated with the issuance of exploration and exploitation licenses, as well as the collection of royalties, fees and taxes.

Corruption Risks in Renewable Energy

In some sectors, risk-based assessments can be used to design strategies for promoting transparency and integrity as well as mitigating corruption risks. This assessment may also be applied to the renewable energy sector. However, based on responses to the questionnaire, many countries do not appear to have conducted extensive research or analysis to identify or assess specific corruption risks in the renewable energy sector and the critical minerals industry. Key points included:

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[15] World Bank (2020), Minerals for Climate Action: The Mineral Intensity of the Clean Energy Transition, Climate Smart Mining Facility, page 72.
[16] World Bank (2020), Minerals for Climate Action: The Mineral Intensity of the Clean Energy Transition, Climate Smart Mining Facility, page 32.
[17] World Bank (2020), Minerals for Climate Action: The Mineral Intensity of the Clean Energy Transition, Climate Smart Mining Facility, page 11.
[18] OECD (2016), Corruption in the Extractive Value Chain: Typology of Risks, Mitigation Measures and Incentives, page 15
[19] Transparency International, 2017. Combatting Corruption in Mining Approvals, page 16.
[20] G20 ACWG (2015), G20 Targeted Approaches to Addressing Corruption in the Extractives Sector.

- Few countries identified corruption risks at different levels of the renewable energy value chain.
- Countries identified that corruption risks were mostly present at the tendering and regulation level, the construction level, and the critical mineral extraction and trade level.
- Bribery was identified as the greatest risk in the renewable energy sector.
- Some countries identified that civil society organisations in their countries have published a number of documents relating to accountable practices in the extractives sector which may be applied to the renewable energy sector.
- Public procurement, including the tendering process, was also considered a high-risk area for corruption.

The combination of tendering and bribery risk conforms to the OECD report on corruption in public procurement which stated that public procurement is one of the government activities most vulnerable to corruption, with 57% of bribery taking place in public procurement. Sector-wise, 19% of foreign bribery cases occurred in the extractive sector[21].

Another notable mention from the questionnaire responses was the granting of incentives to renewable energy projects to create a level-playing field between renewable energy and conventional energy sources. While the numbers and the methods may vary, many G20 countries agreed that the dispersion of incentives or subsidies should meet rigorous standards, and had adequate contracting laws, and regulations and safeguards such as proof of inspections and commissioning. In this regard, some members also highlighted the importance of civil society and media engagement in the active promotion of accountability, good governance and transparency.

Questionnaire responses also indicated that broadly, critical minerals strategies currently in place in G20 countries have common aims to securing supply chains that meet Environmental, Social, and Governance (ESG) standards which includes good governance aspect. As a result, measures and safeguards to mitigate corruption risks can be fundamentally linked to ESG standards. The questionnaire results demonstrated that most of the early adopters of critical mineral strategies are those with significant renewable energy penetration in their market. There was no common definition of a “critical mineral”, and each country used different classifications and indicators to classify critical minerals. Depending on the country, a critical mineral strategy may include the following elements: a list of critical minerals, objectives, a priority area, a mechanism of transparency and traceability of the origin of mineral raw materials, revised mining-industrial regulations, a funding mechanism, and ESG safeguards. Compliance with ESG safeguards is often inextricably linked to anti-corruption compliance.

Anti-corruption measures are thus important both to mitigate corruption and to meet ESG standards. According to the questionnaire responses, no G20 country has anti-corruption measures specifically designed for the renewable energy sector; rather, these measures are attached to each country's anti-corruption measures in general. One area where measures are being implemented is procurement, which corresponds with questionnaire results that

[21] OECD (2014), OECD Foreign Bribery Report: An Analysis of the Crime of Bribery of Foreign Public Officials page 8

identified procurement was more likely than other activities to be vulnerable to corruption risk. In each country, measures are carried out by appointed bodies.

International anti-corruption cooperation was highlighted by G20 countries as a relevant mechanism to better understand corruption risks in the renewable energy sector. International cooperation can act as an informal watchdog and as a platform for knowledge sharing to provide countries with information and lessons learned. For example, international cooperation could assist countries in sharing information and best practices on transparency and good governance in the renewable energy sector and the critical minerals industry.

Several countries cite the Extractives Industries Transparency Initiative (EITI) as an illustration of how they are participating in international cooperation on this issue. It promotes financial transparency and accountability by identifying common standards for transparency in the extractive sector.

According to the questionnaire's findings, the majority of stakeholder engagement in G20 countries focuses on raising awareness across various social groups including government, academia, public, civil society organizations, and the private sector. Various forms of dialogues, consultation, and study groups are used to enhance people's understanding of the importance of corruption mitigation and actively contribute to its implementation strategy. In addition, raising public awareness of corruption risks in general by among others publicizing corruption risks and mitigating measures including with media participation may be of benefit and will have a positive impact on anti-corruption efforts. Similarly, it is necessary to note the important role that whistleblowers play in efforts to prevent, detect and investigate corruption in the renewable energy sector, as well as the energy and extractives sectors more broadly, and to protect persons who report corruption in this sector.

The responses to the questionnaire also indicated that there were few case studies of corruption in renewable energy. Some of the cases are currently ongoing and considered confidential. The remaining cases included cases involving bribery.

In conclusion, the renewable energy sector, similar to the fossil fuel industry, is exposed to corruption risks, given the vast financing pouring into it and projected to increase in the future. Corruption risks in the renewable energy sector may be similar to corruption risks in other sectors. Building on experiences and lessons learned from corruption risks in the broader energy sector or extractives sector, focus should be placed on identifying needs for prevention measures and safeguards, given that the renewable energy sector is relatively new in many countries, and as a result, relevant regulation might be absent or inadequate.

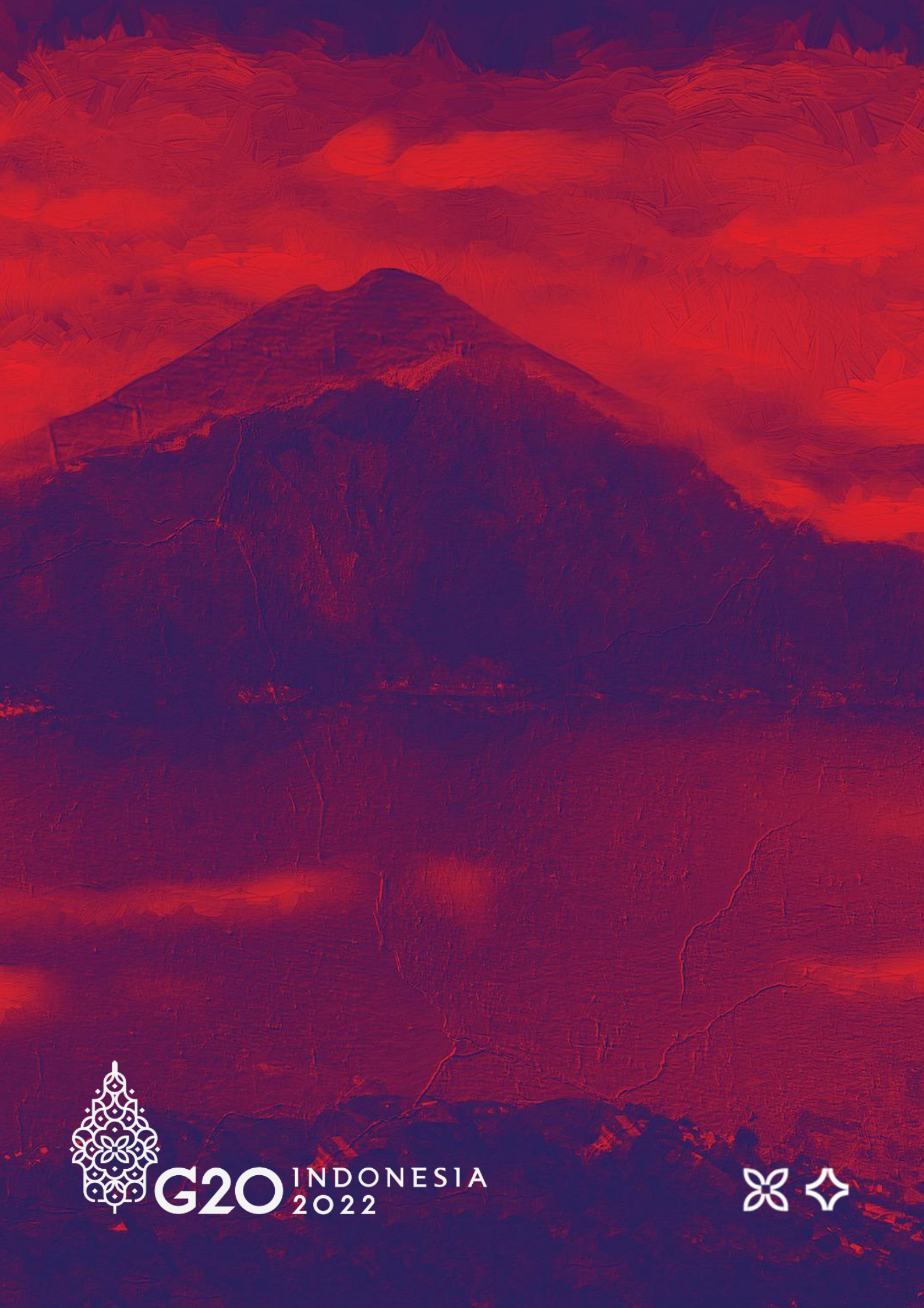
Way Forward

The Indonesian G20 Presidency recognized the importance of raising awareness and developing a better understanding of corruption risks in the renewable energy sector and energy transitions. As many multinational corporations are involved in renewable energy projects in G20 economies, the potential risks of corruption, including foreign bribery, in the renewable energy sector must be well understood by G20 countries. While it is not implied that multinational corporations are more prone to corruption risks, there were several corruption cases which involved multinational corporations.

The Presidency will step up efforts in this area, and this background note on mitigating corruption risks in the renewable energy sector aims to help frame the ACWG's future discussions and potential actions on the subject. To begin, creating synergies between working groups in the renewable energy sector will be beneficial to gain a better understanding of the issue, including through collaboration between the ACWG with the Energy Transition Working Group (ETWG) and the Environment and Climate Sustainability Working Group (ECSWG).

Collectively, the G20 countries could:

- Continue discussing mitigating corruption risks in the renewable energy sector within the ACWG, where appropriate.
- Collect more information and knowledge from other relevant working tracks and international fora.
- Continue to gather knowledge and evidence-based cases of corruption in the renewable energy sector, including exploring thematic dialogues on peer learning and knowledge sharing on corruption risks in renewable energy, including with experts and those conducting research in this field.
- Promote good practices in strengthening compliance with anti-corruption measures, transparency in public procurement, as well as criminalisation and effective enforcement of domestic and foreign bribery, which could improve individual and collective action to mitigate risks in the renewable energy sector taking into account national circumstances, needs, and priorities.
- Support good governance practices in countries in the entire value chain of the renewable energy sector.
- Strengthen and promote capacity building and technical assistance to enable the development, holistic integration, implementation and enforcement of ESG standards and reporting frameworks at all levels that takes national and regional contexts into consideration.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