

U4 Helpdesk Answer

U4 Helpdesk Answer 2022:19

Grand corruption and climate change policies

Overview of grand corruption evidence in energy transition, biodiversity loss and climate finance

Grand corruption poses a serious threat to international efforts to tackle climate change. This Helpdesk Answer provides an overview of evidence on grand corruption in climate change policies, focusing on three broad themes: i) energy transition, including decarbonisation, renewable energy and critical minerals; ii) biodiversity loss; and iii) climate finance.

This answer structures each section based on the forms of grand corruption, looking at state capture, regulatory capture and institutionalised grand corruption, as well as unequal access to lobbying and the transnational component of grand corruption and illicit financial flows related to grand corruption.

There are broad negative consequences of grand corruption in climate change policies, including environmental degradation, health risks, human rights violations, suboptimal allocation of resources and delays in green energy transition.

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Query

Please provide an overview of evidence on the links between grand and transnational corruption and international efforts to tackle climate change, with a focus on energy transition, biodiversity loss and climate finance.

Contents

1. Introduction
2. Grand corruption in energy transition
 - a. Decarbonisation
 - b. Renewables
 - c. Critical minerals
3. Grand corruption in biodiversity loss
4. Grand corruption in climate finance
5. References

Introduction

Interest groups may attempt to affect international efforts to tackle climate change for various reasons, including political, ideological, economic and others. In this process, different strategies may be used by these groups, corruption being one of them. This paper focuses on how grand corruption undermines international efforts to tackle climate change. In doing so, the paper focuses on three broad themes to provide an overview of the existing evidence on grand corruption risks:

- energy transition, including decarbonisation policies, renewable energy and critical minerals
- biodiversity loss
- climate finance

MAIN POINTS

- Grand corruption is present in all three themes discussed: energy transition, biodiversity loss and climate finance.
- The dominant forms of grand corruption in energy transition policies are unequal access to lobbying, institutionalised grand corruption and the transnational component of grand corruption, while in biodiversity loss and in climate finance the dominant forms are the transnational component of grand corruption and institutionalised grand corruption.
- Key actors involved in networks of grand corruption vary based on the theme, but mainly include political officeholders, multinational corporations, oversight and regulatory bodies, professional enablers, domestic firms.
- The negative consequences of grand corruption in climate change policies are numerous, including environmental degradation, health risks, human rights violations, suboptimal allocation of resources, and delays in green energy transition.

Grand corruption

There is not one universally accepted definition of grand corruption. A recent U4 Helpdesk Answer provides a detailed discussion exploring various definitions of grand corruption.

While different definitions of grand corruption have been developed over the years, they typically share three common features: a) misuse or abuse of high-level power by distorting the central functions of government, b) large-scale and/or large sums of money involved and c) transnational component, as grand corruption may cross borders in order to siphon off state resources for private gain (Duri 2020:4-5).

Despite the existence of many different definitions of grand corruption, the central point is that grand corruption involves the capturing of public goods or services at the top political levels. Under ideal conditions, these resources would have been better distributed and led to more socially oriented outcomes.

For the purpose of this answer, grand corruption is defined as a deviation from ethical universalism, a context in which rules apply equally to everyone regardless of religion, identity, political affiliation or other ties. Instead, grand corruption results in “an allocation of public resources which is partial and unfair, due to the presence of ties of a personal and particular nature between office holders and certain individuals or groups” (Mungiu-Pippidi 2017:1).

This definition of grand corruption (Mungiu-Pippidi 2017) is chosen as the most appropriate for this Helpdesk Answer for two main reasons. First, it contains one of the central characteristics of grand corruption typically present across different definitions: that grand corruption involves the abuse of high-level political power to redirect resources and influence rule-making processes

towards narrow interests at the expense of public interest. Second, this definition acknowledges the networked nature of grand corruption, as it emphasises the ties between politics and business, and in this way portrays grand corruption as a collective action phenomenon involving multiple actors (Persson et al. 2013).

Within this broadly defined phenomenon of grand corruption, the paper zooms in to its specific manifestations by focusing on the following forms:

- **State capture:** efforts of powerful individuals, firms, or groups to influence the formation of rules, laws and regulations to benefit their own private interests at the expense of public interest (see Transparency International 2009; National Resource Governance Institute, no date).
- **Regulatory capture:** cases “where the regulations and regulators for an industry are rendered subordinate to the interests of the industry, with the consequence that regulation is designed and operated primarily for the benefit of the industry” (Philp 2001).
- **Institutionalised grand corruption in public contracting:** the bending of rules and principles of good public procurement, to benefit the interests of a closed network while denying access to others (Fazekas and Tóth 2016). A subtle difference compared to state capture is that, while the former refers to efforts to influence the formation of laws, rules and regulations, the latter refers to influencing their implementation. The concept has a clear application for climate change policies, as there is broad evidence documenting these practices in relation to climate finance, subsidies, incentives for renewable energy transition and others.

Two other considerations relate to lobbying and the transnational nature of corruption affecting climate action.

Lobbying and other grey areas

While lobbying, defined as “any activity carried out to influence a government or institution’s policies and decisions in favour of a specific cause or outcome” (Transparency International, 2020) is an essential part of a democratic process, challenges can arise in situations characterised by unequal access to decision makers and the promotion of corporate interests over the interest of the public (Mullard 2021; Nest and Mullard 2021).

While, depending on the jurisdiction, these practices may not be illegal, they can constitute an integrity issue and deserve attention as disproportionate influence of corporate groups may be translated into policies that favour narrow benefits over public interest (Jenkins and Mulcahy 2018; Mullard 2021).

- Transnational component of grand corruption. Considering that energy markets and climate finance instruments are embedded in the international financial system, some forms of grand corruption related to climate change policies have a transnational character, which will be addressed in the paper. For example, in the case of state capture, if it is foreign actors (e.g. multinational firms) that try to exert undue influence on policymaking processes in a particular country, this means that state capture has a transnational aspect, and these cases will be discussed under the section on transnational component.
- An additional nuance within the transnational component will be introduced with regards to illicit financial flows related to corruption, which, in this paper, are defined as “when the economic returns from these acts, directly or

indirectly, generate cross-border flows and when financial assets are transferred across borders to commit these crimes” (UNODC 2020:14).

Any analysis on the relationship between grand corruption and international efforts to curb climate change has to be mindful of contextual factors, such as institutional quality, levels of democracy, the position of a country in the global division of labour, levels of economic development, and others.

Case study evidence presented in this paper introduces the key contextual factors as these may intervene and shape the way that grand corruption influences climate change policies. However, due to the nature of the paper, contextual factors are not analysed in great detail as the primary focus is on outlining evidence demonstrating how grand corruption undermines international efforts to curb climate change.

As the paper will discuss, there is a broad range of negative consequences of grand corruption on international efforts to curb climate change. As covered in more detail below, these can include:

- environmental degradation
- negative health consequences
- suboptimal allocation of resources
- delays in green transition
- human rights violations

Petty forms of corruption

Petty forms of corruption, such as bribery and embezzlement, may be vertically integrated into more complex forms of grand corruption. As the focus of this Helpdesk Answer is on grand corruption, petty corruption is mentioned only when it is inextricably linked to wider schemes such as state capture.

This Helpdesk Answer is structured as follows. It has three main themes:

- i) grand corruption in energy transition, with sub-themes on decarbonisation, renewables, and critical minerals,
- ii) grand corruption in biodiversity loss,
- iii) grand corruption in climate finance.

Each theme consists of an introduction about general corruption risks relevant for the theme in question and continues with a discussion on specific manifestations and mechanisms of grand corruption (state capture, regulatory capture, and institutionalised grand corruption), lobbying and other grey areas, and the transnational component of grand corruption and lobbying. Each theme/sub-theme concludes with a discussion on the key negative consequences of grand corruption in climate change policies.

The Annex provides a summary of the key findings by outlining the key forms of grand corruption identified, key actors, manifestations, and case study examples.

Grand corruption in energy transition

Energy transition refers to the process of reframing the ways in which energy is produced and consumed to address the impacts of human-induced climate change (Acheampong 2022:7). Considering the extent of this transformation, which aims to drastically reduce greenhouse gas (GHG) emissions, it is no surprise that energy transition is considered a “green industrial revolution” (Clarke and Cooke 2014; Acheampong 2022).

As with any significant economic transformation, energy transition disrupts the existing power structures and creates new winners and losers. Thus, at the outset, it is important to keep in mind that contextual factors, such as levels of economic development and quality of institutions can influence how powerful political and business interests will react to new constraints and opportunities that the energy transition brings. These factors may intervene and shape the impact that grand corruption has on the efforts to achieve green transition, as well as the likelihood of it materializing.

As a huge endeavour, energy transition requires a lot of financial resources. Some estimates suggest that a decarbonised energy sector would need from tens to hundreds of trillions of dollars between now and 2050 (Sovacool 2021). A portion of these resources can be lost to corruption and, as we will see in the following sections, grand corruption risks are an important challenge in the efforts to efficiently use financial resources to tackle climate change.

Rimšaitė (2019:265; Sovacool 2021) emphasises three reasons why energy transition is vulnerable to corruption risks:

- i) as a capital-intensive sector, energy markets are prone to control by a small number of actors, especially regulators (making it vulnerable to regulatory capture) and government, which can pursue policies that limit the ability of private companies to implement projects;
- ii) the sector is characterised by a close cooperation between political and business actors, which opens a space for collusion between these networks; and

iii) it includes large value public procurement contracts, which, as literature in other industries suggests, are particularly vulnerable to corruption risks (Fazekas and Tóth 2016; Fazekas and King 2018; Dahlström et al. 2021; see also Mungiu-Pippidi 2015).

Decarbonisation

Decarbonisation refers to efforts to reduce the dependency on fossil fuel energy. After the 2015 Paris Agreement (UNFCCC, no date a), which resulted in an international treaty with the goal of keeping global warming well below 2°C and preferably 1.5°C relative to pre-industrial levels, many countries have declared ambitions to reduce GHG emissions (D’Arcangelo et al. 2022).

A range of different policies may be adopted to reduce dependency on fossil fuels. D’Arcangelo et al. (2022:37) suggest that an effective decarbonisation strategy should rely on a comprehensive policy mix that includes:

- emission pricing instruments (these include GHG taxes, emission trading schemes (ETS) and other instruments based on incentives, such as taxes on polluting goods)
- standards, regulations and subsidies to incentivise the adoption of low-carbon technologies (e.g. emission quotas)
- complementary and framework policies that create favourable economic and social conditions by lowering the costs of decarbonisation efforts

The exact shape of these policies vary across countries and depend on political constraints, social preferences, levels of economic development

and the quality of institutions among other factors (see D’Arcangelo et al. 2022).

Since the process of decarbonisation disrupts the power of businesses that rely on fossil fuels and creates new winners and losers, some actors may rely on grand corruption as a way to limit or reverse the process.

Corruption may undermine the effectiveness of carbon tax and make it more difficult for the government to win public support to adopt ambitious policies, as public may be less supportive of these policies if their adoption and specific characteristics are influenced by corrupt actors (Conway and Hermann 2021). Further, the literature suggests that a better control of corruption is associated with more support for reforming the fuel subsidy system (McCulloch et al. 2021). For example, some evidence suggests that the perceived corruption of local governments increases citizens’ resistance to replacing fossil fuel subsidies with targeted spending (Kyle 2018). At the most general level, some studies find a positive correlation between corruption and higher carbon dioxide emissions (Leitão 2021; Sahoo et al. 2021).

State capture in decarbonisation

Some evidence of state capture has been identified in relation to carbon tax policies. Carbon tax is considered to be one of the most efficient policies to reduce carbon emissions as it incentivises economies to move towards alternative energy sources (Ceballos 2021). Carbon tax is susceptible to corruption risks at various stages of the policy cycle, including adoption, implementation and evaluation (Ceballos 2021; Conway and Hermann 2021). Already at the adoption phase, various special interests, which may include lobby groups, corporations, high emitters, auditors and politically connected businesses, may push for favourable treatment (e.g. tailor-made carbon tax) (Ceballos

2021). Some of these groups operate in a grey area of legality, as we will discuss more in the section on lobbying and unequal access to decision makers.

In Indonesia, the process of carbon tax adoption has been characterised by the influence of powerful business groups and businesspeople turned politicians in what resembles a state capture dynamic. Namely, evidence suggests that the political involvement of businesspeople in political parties and government institutions in Indonesia was the key reason for political resistance towards the introduction of a carbon tax (Dyarto and Setyawan 2020:1485).

This transition process from business to politics has made the business elite particularly influential on the policymaking process in Indonesia (Dyarto and Setyawan 2020:1485). Moreover, large companies have a structural power as well, considering that they are the key economic players in the country (Dyarto and Setyawan 2020).

Although the Indonesian government has announced the introduction of the carbon tax since then, the very low tax rate is likely to have a minimal impact on emission reductions (Conway and Hermann 2021:5). Moreover, the implementation of the carbon tax, which should have started in April 2020, has already been delayed twice (Partogi and Muhariastuti 2022; Reuters 2022; Jakarta Globe 2022).

Regulatory capture in decarbonisation

Revolving door practices may trigger regulatory capture in the decarbonisation sphere favouring narrow business interests over public interest. Even if regulations prevent politicians from having active business interests, the transition of lobbyists and businesspeople into regulatory agencies may lead to capture.

The example from the United States suggests evidence of shifting to industry special interests in the Environmental Protection Agency (EPA) in the starting period of Donald Trump's administration (Dillion et al. 2018) which resulted in an important shift in previous policies and practices of the EPA.

Energy companies contributed hundreds of thousands of dollars to political action committees run by or supporting Donald Trump's nominee to lead the EPA, Oklahoma Attorney General Scott Pruitt. Pruitt was previously vocal against Barack Obama's climate policies and, particularly, regulations imposed on the fossil fuel industry (Dennis 2017). In 2018, former coal lobbyist Andrew Wheeler was appointed the No. 2 at the EPA (Lavelle 2018).

The study analyses the changes in EPA policy during the Trump administration and concludes that there was a shift in favour of business interests (the authors do caution that the identified practices do not conform with full regulatory capture) (Guillen and Whieldon 2017; Dillion et al. 2018; Lavelle 2018). This manifested in political appointments of people close to the coal industry, allowing lobbyists on scientific advisory boards and prioritisation of regulatory rollbacks (Dillion et al. 2018:90-92). This study is particularly relevant for two reasons: i) it provides tentative evidence for the potentially negative effects of revolving door practices on favouring industry interests in the energy sector and ii) it sheds light on how political donations and lobbying may lead to unequal access to decision makers into favourable policies for narrow interest groups.

Thus, revolving door practices can be a dangerous bridge towards regulatory capture, which suggest the importance of properly monitoring and regulating these movements. Recent evidence from the UK suggests that revolving door is a widespread practice across a range of industries, including fossil

fuels. For example, Open Democracy (2022) revealed that a former British Gas director became responsible for setting the energy price cap at Ofgem, the UK's energy regulator (Bychawski 2022). This is one example out of at least 10 other senior officials recruited to top roles at the Department of Business, Energy and Industrial Strategy from the energy and oil sectors (Bychawski 2022).

Further, recent research revealed at least 71 cases of revolving door consisting of EU Commission advisers, MEPs, EU ambassadors, national MPs, and energy and financial ministers who held public offices before they moved to fossil fuel companies,¹ and vice versa, which carries the danger of conflict of interest and regulatory capture (Sanchez Nicholas 2021).

Institutionalised grand corruption in decarbonisation

Examples of institutionalised grand corruption related to decarbonisation policies can be found in resource rich countries with regards to fossil fuel subsidies. Data suggest that US\$423 billion is spent annually to subsidise fossil fuels for consumers (UNDP 2021). These subsidies have a range of negative consequences, including lock-in of inefficient technologies, redirection of state funds from productive goals and environmental harm (see Rentschler and Bazilian 2016; Coady et al. 2017; Sovacool 2017; Rentschler and Hosoe 2022). Despite their broad negative effects, attempts to put an end to fossil fuel subsidies have been followed by popular backlashes in various contexts, including Nigeria, Kazakhstan, Ecuador,

France, Lebanon and elsewhere (IISD 2019; Kasturi 2022; Stronski 2022)

Fuel subsidies often help to sustain patronage networks in non-democratic regimes, as the example of Nigeria suggests, where fossil fuel subsidies are intimately tied to government corruption and a lack of public trust in the government (Ladislav and Cuyler 2015). The Nigerian National Petroleum Corporation (NNPC)² was an important source of siphoning public funds to various politically connected interest groups (Akanle and Adebayo 2013:96).

For example, in 2016, auditors revealed that the NNPC failed to pay US\$16 billion to the government as officials from the previous administration allegedly engaged in siphoning billions of dollars of oil funds (BBC 2016). Further, KPMG auditors revealed that between 2007 and 2009 the NNPC over-deducted subsidy claims to the amount of N28.5 billion (approx. US\$650 million) (KPMG 2010).

Akanle and Adebayo (2013) note the importance of oil importers in corrupt networks of fossil fuel subsidies. They act as middlemen between the NNPC and the international oil market to procure refined fuel and then distribute it to local consumers at subsidised rates (Akanle and Adebayo 2013:96). These actors had close ties with political officeholders in the Nigerian government, while many serve as fronts for politicians directly benefiting from fuel subsidy corruption (Akanle and Adebayo 2013:96). In 2012, evidence of fuel subsidy fraud was revealed, consisting of collecting subsidies for fuel that never existed, issuing false invoices, etc.

¹ The research looked at six fossil fuel companies – Shell, BP, Total, Equinor, ENI, and Galp, and five of their lobby groups – Hydrogen Europe, Eurogas, FuelsEurope, IOGP, and CEFIC (Sanchez Nicholas 2021).

² Until 2022, when it was transformed into a limited liability company, NNPC was a Nigerian state-owned oil corporation established in 1977 through a merger between the Nigerian National Oil Company and the Federal Ministry of Petroleum and Energy Resources (see Akanle and Adebayo 2013).

(Reuters Staff 2012; Akanle and Adebayo 2013). The corruption risks were increased mainly due to a dramatic increase in the number of fuel importers, from 5 in 2006, to 140 in 2011.

In Indonesia, fossil fuel subsidy reform was tied to different special interest groups that benefited from the subsidies, including vehicle manufacturers and distributors, and state-owned oil companies (Chelminski 2018).

Lobbying and other grey areas in decarbonisation

The available data suggests that oil and gas companies spend huge amounts of money on lobbying to block climate change policies (McCarthy 2019). Unequal access to lobbying can lead to the undue influence of some stakeholders and potentially limit or reverse efforts of decarbonisation (Ceballos 2021). It opens a door to a number of corruption risks, some of which are petty forms of corruption (e.g. bribery, influence peddling) but some of which constitute grand corruption, such as regulatory capture, discussed in the previous section (see Mullard 2021; Nest and Mullard 2021).

Depending on the jurisdiction, unequal access to decision-making does not automatically constitute corruption, but it certainly raises integrity issues (Conway and Hermann 2021). There is abundant evidence on the disproportionate power of big oil and gas companies to influence decision makers. For example, between 2018 and 2021, oil and gas interests spent four times more than environmental advocacy groups and close to six times more than clean energy firms on lobbying in California (Slowiczek and Capital & Main 2022).

Research by the Influence Map (2019:2) estimates that, in three years following the Paris Agreement, the top five oil and gas companies invested more than US\$1 billion on “misleading climate related

branding and lobbying”. Close to US\$200 million of this is spent yearly on lobbying to control, block or delay climate change policies (Influence Map 2019; McCarthy 2019). According to the Influence Map (2019), tactical use of social media by oil and gas giants is a key trend in these efforts, specifically ads that promote the benefits of fossil fuel production.

Data provided in an Influence Map report (2019:18) suggest that oil giants and their agents spent US\$2 million on Facebook and Instagram ads to win key decisions around the US mid-term elections in 2018.

Further, lobbying efforts of oil and gas companies are sometimes characterised by declarative support to decarbonisation, but with conditions attached. For example, ExxonMobil made a US\$1 million donation in 2018 to a lobbying campaign for a US federal carbon tax which also proposes the repeal of GHG emission standards under the US Clean Power Plan and immunity from all climate related lawsuits in the future (Irfan 2018; Influence Map 2019:11).

Since the Russian invasion of Ukraine and increased uncertainty in gas supplies in Europe, US exporters of fossil gas made huge financial gains. Namely, Cheniere, the US’s biggest exporter of liquefied natural gas (LNG) increased its cash earnings by US\$3.8 billion in the first six months of 2022 relative to the previous year (Global Witness 2022a, 2022b, 2022c). Moreover, LNG exporter companies, participated in the US-EU energy security taskforce which was set up in March 2022 in response to the Russian war in Ukraine. Global Witness (2022a, 2022b) notes the worry expressed by climate groups about a potential bias of the taskforce towards fossil gas interests. One reason is the appointment of a former US LNG industry executive as the US government lead representative in the taskforce, which raises risks of conflict of interest (Global Witness 2022b:5).

U4 Anti-Corruption Helpdesk

According to Global Witness (2022a, 2022b), the LNG Allies, a secretive lobby group, demanded and was granted five important concessions from US president Joe Biden after the Russian invasion on Ukraine. These included resuming fossil fuel leasing on US federal lands, authorising new US fossil gas infrastructure, approving funding for building infrastructure in Europe and speeding up six specific US LNG export licences.

Global Witness (2022b) suggests that the expansion of the US LNG infrastructure was not necessary to help Europe's efforts to respond to the Russian invasion of Ukraine. Rather, it likely only benefits the gas industry, while it negatively affects local communities and stalls efforts to move away from fossil fuel infrastructure (Global Witness 2022b:8).

Further, Influence Map (2017) has found that the oil and gas industry successfully lobbied the UK government to get a minimum tax on North Sea operations. According to this report, it seems that the Treasury is making key tax policy decisions followed by consultations that seem to be effectively open only to oil and gas firms and their lobbyists (Influence Map 2017:2). Close relationship between the industry and the UK government is ensured via revolving door practices, industry secondments and political party funding (Lawrence and Davies 2015; Influence Map 2017). While revolving door practices do not automatically translate into any form of capture, cosy ties between the government and business in the UK have been shown in other industries to increase the risks of corruption or at least secure unequal access to decision makers (Resimić 2019).

Transnational component of grand corruption in decarbonisation

The transnational component of grand corruption in decarbonisation policies mainly relates to the

disproportionate power of large oil and gas multinational companies who want to preserve the status quo or secure preferential treatment. Their influence typically manifests through unequal access to lobbying and foreign bribery.

For example, fossil fuel subsidies, one of the earlier mentioned barriers towards energy transition, are a frequent target of lobbying by multinational oil giants (Van Lierop 2019). Recent research from 2019 showed that the top five oil and gas companies and their fossil fuel lobby groups spent €251 million lobbying the EU since 2010 for, among other things, lucrative fossil fuel subsidies (Corporate Europe Observatory et al. 2019).

Foreign bribery also seems widespread among oil companies. For example, Vitol Inc., the US affiliate of the Vitol Group, the world's biggest oil trading company, agreed to pay a hefty fine for oil bribes in Brazil, Mexico and Ecuador. For almost 15 years, Vitol was paying bribes to government officials to win lucrative business contracts (Kimani 2020; The US Department of Justice 2020). Further, Switzerland based mining company Glencore pleaded guilty to multiple accounts of bribery of government officials in West Africa and Latin America in exchange for preferential access to oil (Dempsey and Sheppard 2022).

A report that has just been published by Transparency International, which looks at the performance of 47 leading exporters in cracking down on foreign bribery by companies from their countries, shows worrying results (Dell and McDevitt 2022). Namely, only two countries, the United States and Switzerland, are in the category of active enforcement in the latest report, while most countries suffer from inadequacies in their legislation and institutions, which negatively affect enforcement against foreign bribery (Dell and McDevitt 2022).

U4 Anti-Corruption Helpdesk

Summary: Grand corruption and decarbonisation

Existing evidence of grand corruption risks in decarbonisation suggests that lobbying by gas and oil giants and the transnational component of grand corruption risks are the most prominent forms. This is likely related to the fact that oil and gas multinational corporations have a vested interest in delaying various decarbonisation policies, such as carbon tax or the elimination of fossil fuel subsidies, and they tend to rely on their disproportionate financial means to influence decision makers in countries where their businesses operate. A detailed summary is provided in Table A1.

Negative consequences of grand corruption in decarbonisation

Grand corruption in decarbonisation may have serious negative consequences on the efforts to reduce countries' dependency on fossil fuels.

The continuation of fossil fuel subsidies that may happen due to grand corruption has a range of economic, social and environmental costs:

- they can overburden government budgets, thus limiting resources for more efficient use
- they can decrease the competitiveness of low-carbon industries, thus blocking the energy transition
- they can compromise energy security
- they can damage public health (e.g. increased air pollution) (Whitley and van der Burg 2015:10).

Grand corruption in decarbonisation policies can also significantly delay efforts to decarbonise the economy. Examples from previous sections (e.g. Indonesia) suggest that vested interests in different

contexts can delay the adoption of different policies, such as the carbon tax on GHG.

Corruption can inhibit public acceptance towards ending environmentally harmful policies, such as fossil fuel subsidies, as evidenced from different contexts, including Indonesia suggest (Kyle 2018).

U4 Anti-Corruption Helpdesk

Table 1: Summary of the key findings on grand corruption in decarbonisation: key forms, manifestations, actors, and examples.

Key manifestations	Key Actors	Examples
<p>State capture in decarbonisation may occur at different stages of the policy cycle. There is evidence of state capture in carbon tax policies, manifesting in the influence of businesspeople-turned-politicians on decision-making in some contexts.</p>	<ul style="list-style-type: none"> - Political officeholders - Political parties - Multinational oil and gas companies - Lobby groups - Domestic businesses - State-owned companies 	<p>An example is the carbon tax implementation process in Indonesia (Dyarto and Setyawan 2020).</p>
<p>Regulatory capture in decarbonisation may be triggered by revolving door practices. These movements, in some cases, can lead to favouring narrow business interests at the expense of environmental concerns.</p>		<p>Some examples of shifting to industry special interests can be found in the US (Dillion et al. 2018).</p>
<p>Institutionalised grand corruption in decarbonisation may occur in relation to the distribution of fossil fuel subsidies. The evidence suggests that in weakly institutionalised contexts, legal loopholes and informal networks between politics and businesses may be used to siphon public resources into the hands of politically connected businesses.</p>		<p>An example of Nigeria (Ladislaw and Cuyler 2015) suggests how fuel subsidies may be used to sustain patronage networks in non-democratic political regimes.</p>
<p>Lobbying in decarbonisation can become a public concern when oil and gas giants use their disproportionate influence to access decision makers to shape the design of different policies, primarily carbon taxes and fossil fuel subsidies. Evidence suggests that the Russian invasion of Ukraine already has an important impact on decarbonisation efforts as it provides leverage for fossil fuel industries to push for policies favourable to them.</p>		<p>There is rich evidence on the disproportionate power of big oil and gas companies to influence decision makers: these firms spend much more on lobbying compared to environmental and clean energy groups in California, for example, (Slowiczek and Capital & Main 2022), and evidence suggests that gas and oil giants spend huge sums on “misleading climate related branding and lobbying” (Influence Map 2019:2).</p>
<p>The transnational component of grand corruption in decarbonisation relates to unequal access to lobbying by multinational oil and gas corporations and foreign bribery.</p>		<p>Fossil fuel subsidies are a frequent target of lobbying by multinational oil giants (Van Lierop 2019). Foreign bribery in exchange for lucrative contracts is also present, as evidence from Brazil, Mexico and Ecuador suggest (Kimani 2020; The US Department of Justice 2020).</p>

U4 Anti-Corruption Helpdesk

Renewables

Renewable energy technology can be broadly divided into two groups: dispatchable, such as solar, biomass and hydropower, and non-dispatchable,³ such as wind power, photovoltaic cells and ocean power (Rahman 2020: 3). Existing research (Lawrence 2008; Dunlap 2019; Gallop et al. 2019; Sovacool 2021) has documented evidence of grand corruption across different types of renewable energy technologies, suggesting that none is immune to corruption risks. For example, a recent study using panel data on lower, middle and high-income countries between 2000-2017 found a positive relationship between control of corruption and green energy efficiency (Ozturk et al. 2019).

Nevertheless, it is important to note that there may be differences in forms of grand corruption depending on:

- the type of renewable technology involved (Sovacool 2021)⁴
- local contextual factors, such as levels of economic development and quality of institutions (Moliterni 2017)
- stage of the policy cycle (Sovacool 2021)

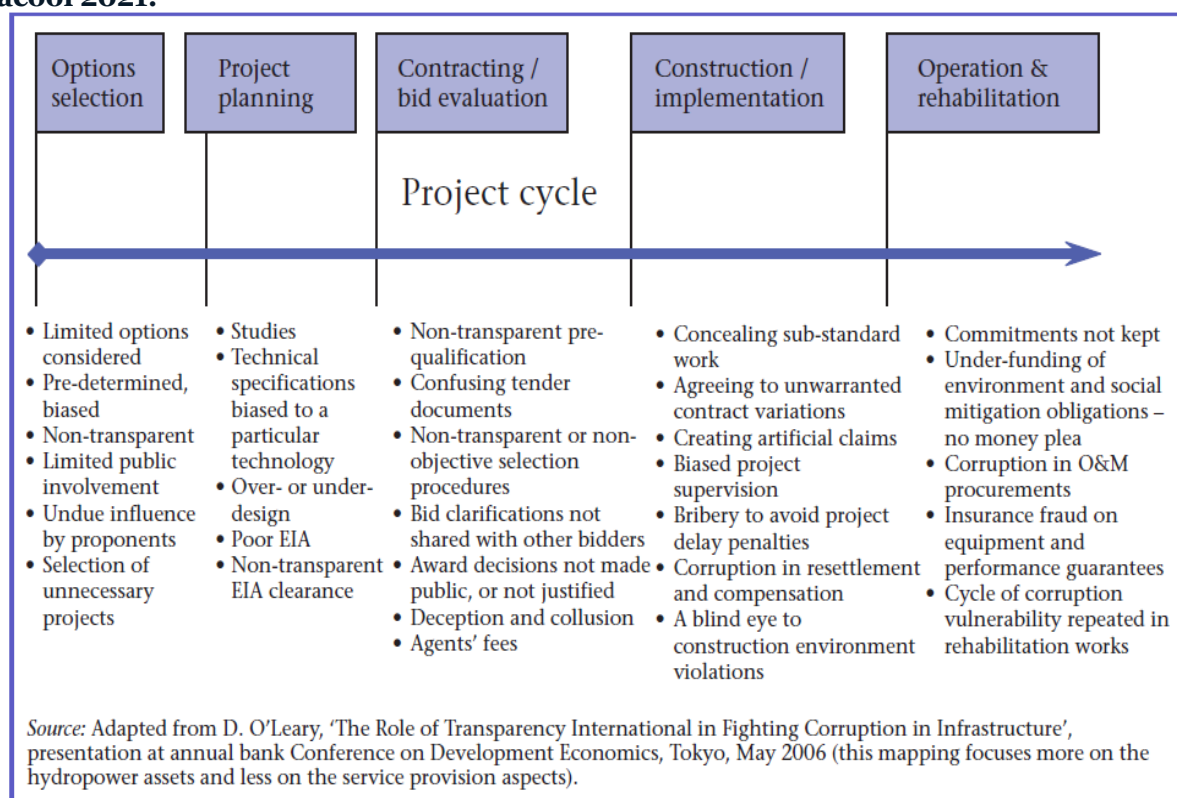
Haas (2008) provides a useful overview of corruption risks in the policy cycle of hydropower projects (Figure 1).

³ While dispatchable sources of electricity are flexible and able to change their output relatively fast, non-dispatchable sources cannot or have limited ability to adjust their power output to match electricity demand as they depend on the weather (Baroni 2022).

⁴ For example, hydropower projects can provide a fertile ground for corruption in the design, tender and implementation phases due to

their size, the huge investments involved and the complexity of projects, which can all increase corruption risks (Transparency International 2008; Sovacool 2021:5).

Figure 1. Hydropower project cycle and corruption risks. Source Haas 2008:88. See also Sovacool 2021.



State capture in renewables

This section provides empirical evidence on state capture, addressing the structure of grand corruption networks in renewable energy transition. While this section draws on examples from the Western Balkans, the governance challenges that these countries face are not atypical, [as case study evidence from other contexts suggest](#), thus their relevance goes beyond the region.

The Western Balkans experienced a boom in the construction of small hydropower plants over the last decade, primarily incentivised through public support in the form of feed-in tariffs.⁵ While the original plan was to use these incentives for all types

of renewables, they predominantly went to small hydropower plant projects (e.g., in 2018, these projects received 70% of support) (Gallop et al. 2019). However, there is a mismatch between the support for hydropower plants and their contribution to electricity generation.⁶ Moreover, they have caused public protests across the Western Balkans due to the environmental damage related to their construction and operation (Gallop et al. 2019).

In most Western Balkan countries, these projects have benefited businesspeople connected to political parties in power, exemplifying patterns of institutionalised grand corruption, as will be discussed in the following section (Kostić and Dorđević 2018).

⁵ Typically, a state would agree to buy the electricity produced in small hydropower plants at a fixed price for a certain time period, which was typically 12 years (Dorđević 2020).

⁶ In 2018, only 3.6% of electricity in the Western Balkans was generated by small hydropower plants below 10MW (Gallop et al. 2019:5).

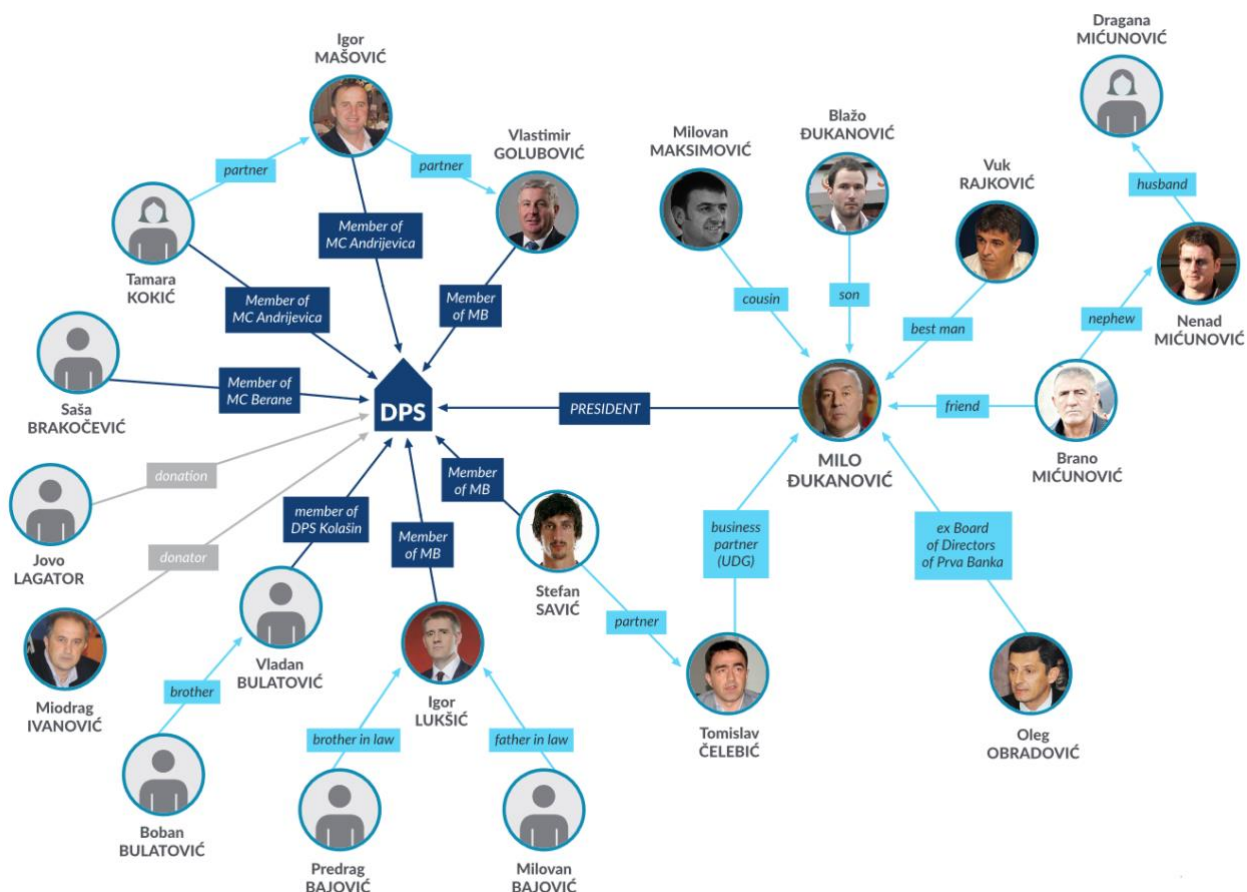
U4 Anti-Corruption Helpdesk

In some cases, such as Montenegro, these projects, in addition to institutionalised grand corruption, have elements of the state capture dynamic (Ćalović Marković et al. 2018; Gallop et al. 2019).

In Montenegro, a country characterised as a mafia state in the academic literature (Magyar 2016), the renewable incentive system has mainly benefited the crony circle around the president, Milo Đukanović (Figure 2) (MANS 2017; Ćalović Marković et al. 2018; Gallop et al. 2019), consisting of his family members, business associates and political officeholders from the then ruling political party Democratic Party of Socialists (DPS).

Changes to the Law on Energy in 2015 and the Law on Value Added Tax in 2017 created several provisions favourable to companies engaged in the renewable energy sector (Ćalović Marković et al. 2018). Namely, the production of energy from renewable sources was declared to be a public interest and citizens became obliged to pay a special tax to support renewable energy sources. The owners of small hydropower plants were guaranteed that all the electricity they produced would be bought. Moreover, the government, under the claim of public interest, expropriated land from private owners in several locations and later granted concessions to private firms (Ćalović Marković et al. 2018:2-3).

Figure 2. The network of actors involved in small hydropower plant projects in Montenegro.
Source: Ćalović Marković et al. 2018:6.



As of 2017, there were ten small hydropower plants in Montenegro. Afterwards, the government granted concessions to 47 additional plants. The investigation into the ownership structure of the winners of these concessions suggests that at least 50% were connected to DPS (Ćalović Marković et al. 2018:3).

As elsewhere in the Western Balkans, the outcomes of these projects in Montenegro were suboptimal. Namely, a MANS Investigation Center (Ćalović Marković et al. 2018) study showed that the state has earned less than €500,000 in four years, whereas concessionaires, through the taxes paid by citizens in their electricity bills earned close to €5 million in less than three years, suggesting that narrow business interests profited from these arrangements (MANS 2017; Ćalović Marković et al. 2018:9).

Research on North Macedonia has documented evidence on tailor-made laws in the environmental sector. In a regulation⁷ setting the conditions to produce electricity from renewable sources, two types of support were introduced for producers, the above mentioned feed-in tariffs and premiums. These provisions particularly favoured hydropower producers, some of which were politically connected (Balkan Green Energy News 2019; Zúñiga 2020: 17-18; Taseva 2020; Resimić 2022a:11). Namely, they particularly benefited Small Hydro Power Plants Skopje, a company whose manager was a businessman, Todor Angjušev, the brother of the Deputy Prime Minister for Economic Affairs at the time, Kočo Angjushev (Zúñiga 2020).

Furthermore, Kočo Angjušev, was a major shareholder in the firm Feroinvest, which owned a

number of small hydropower plants in North Macedonia (Gallop et al. 2019). Although Angjušev stepped down from a management position in Feroinvest in 2016, he was involved in drafting the legislation on renewable energy sources as a political officeholder, which raises the issue of conflict of interest and a risk of state capture (see Zúñiga 2020:18; Gadžovska Spasovska and Kalinski 2019; Taseva 2020:32). This is because Angjušev directly or indirectly controls a third of the small hydropower plants in the country (Gadžovska Spasovska and Kalinski 2019). In 2019, there was an investigation by the State Anti-Corruption Commission to determine how Feroinvest obtained the rights to use a piece of land for one of its small hydropower plants (Gallop et al. 2019:33).

Another politician from North Macedonia, Hristijan Mickoski, won at least five concessions through his private company while he was serving as the director of a state-owned electricity production company and an energy adviser to former prime minister Nikola Gruevski (Gallop et al. 2019:33; Tim 24 2019). He came under investigation by the State Commission for the Prevention of Corruption for the procedure under which he received the concessions (Gallop et al. 2019:33; Tim 24 2019).

Institutionalised grand corruption in renewables

The most typical form of grand corruption occurring in renewables, based on existing research, is institutionalised grand corruption. As a reminder, the difference between state capture and institutionalised grand corruption is that the former refers to the illicit influence on the formation of rules, whereas the latter refers to illicit

⁷ Regulation No, 29, which sets the conditions for electricity production from renewable sources since 2019 (Zúñiga 2020: 17; Resimić 2022a).

influence on their implementation (bending existing rules and regulations to achieve narrow benefits). Political connections are an important feature of both manifestations of grand corruption, but the difference is in the target of capture.

There is rich evidence from several Western Balkan countries, demonstrating the existence of institutionalised grand corruption. These cases show how public funds can be diverted to finance suboptimal projects related to climate change.

For example, research from Serbia suggests that hydroelectric power plants owned by the state company Serbian Electric Power Industry (EPS) and those connected to Nikola Petrović, a businessman and best man to President Aleksandar Vučić, received over €21 million. This amount is more than half of what Serbian citizens paid for the electricity generated in hydroelectric power stations between 2013 and 2016 (Kostić and Đorđević 2018).

While not necessarily suggesting corruption, firms with strong political connections benefiting from public financing for small hydropower plants indicate the existence of serious corruption risks (Gallop et al. 2019). This is even more so considering the existing evidence on the extent of politicisation and state capture in the Serbian economy and the economies of other Western Balkan countries (Duri 2021; Resimić 2022b). Deeply rooted patronage networks and the politicisation of economies lead to the targeted awarding of concessions and public procurement contracts to ruling political elites and their crony networks (Duri 2021; Resimić 2022a, 2022b). Climate change related projects are not an exception in any way. Moreover, concessions for small hydropower plants were not only granted to politically connected businesses in Serbia but also to figures linked to organised crime (Đorđević 2020).

Links between subsidised renewable energy projects and political-business criminal networks have been identified elsewhere as well. For example, a study by Gennaioli and Tavoni (2016) focuses on the links between public policy and corruption in wind energy. They find that illicit ties between businesses and politicians can influence the licensing process in subsidised renewable energy schemes (Gennaioli and Tavoni 2016).

Evidence from Kenya suggests that political officeholders frequently use their political power to allocate resources for solar projects to their ethnic groups, exemplifying the patterns of institutionalised grand corruption, with consequences such as inefficient allocation of resources and diversion of public spending (Sovacool 2021). A study by Boamah et al. (2021) offers evidence of the widespread use of political connections in securing public procurement contracts in Kenya. This practice is so widespread that there is a special colloquialism, “tenderpreneur” to describe a businessperson who relies on political ties to secure public procurement contracts (Piper and Charman 2018; Boamah et al. 2021:8).

Lucrative projects in renewables can be an attractive source of institutionalised grand corruption. For example, evidence from China (Haas 2008) and elsewhere suggests that big dam projects carry high risks of grand corruption due to their lucrative nature. This potential for grand corruption can be so decisive as to direct policymaking to the most lucrative investment projects (Butterworth and de la Harpe 2009; Sovacool 2021).

For example, there is evidence of institutionalised grand corruption in Malaysia through directing hydropower contracts to companies tied to the family of the chief minister of Sarawak, Mahmud Taib (Bruno Manser Fund 2013; Sovacool 2021). There are allegations of public spending for large

dams being diverted to the Taib family, who remained in political power in the state of Sarawak, and to companies connected to this family (Sovacool 2021:10). This suggests that the allocation of dam contracts is particularly prone to corruption, especially in this phase when corrupt practices, such as different forms of tender rigging, can systematically divert resources to politically connected firms at the expense of public interest. This process involves the collusion of various actors, including private firms, banks, national energy companies, political parties, government and state bureaucrats (Sovacool 2021:10).

There is also evidence of the diversion of state funds by the ruling political parties in Uganda. The Global Energy Feed-in Tariff Uganda (GET FiT), a green intervention mechanism to address the challenge of Uganda's overreliance on environmentally harmful dams, was characterised by delays, which were attributed to institutional corruption at Uganda's Electricity Transmission Company (UETC) (Redd 2021). UETC was missing funds necessary for building one of the critical substations. Allegedly, these funds were partly used to fund the electoral campaign of one of the political parties in 2016, the National Resistance Movement (NRM) (Redd 2021).

Further, recent convictions in Croatia in connection with procurement contracts for a solar power plant and a wastewater treatment facility illustrate how petty forms of corruption are part of a more complex chain of institutionalised grand corruption. Three people were found guilty of illegal favouritism and attempt of abuse of office (EPPO 2022). They were previously accused of manipulating the public procurement procedure of the aforementioned projects funded by the European Union Cohesion Fund and the European Regional Development Fund (EPPO 2022). Two of the accused, the manager of a private company and the mayor of Nova Gradiska, were manipulating

public procurement documentation to favour a particular firm (EPPO 2022). Although this case refers to a small number of companies, it fits into a broader pattern of institutionalised grand corruption, whose aim is to systematically redirect state resources to politically connected firms (Fazekas and Tóth 2016).

Transnational component of grand corruption in renewables

Grand corruption in renewable energy transition has, in some cases, a transnational component. The complexity and international nature of big projects can provide a fertile ground for transnational corruption (Butterworth and de la Harpe 2009). For example, evidence of state capture with a transnational dimension has been found in solar projects in South Africa (Joubert 2016), a country with a history of serious problems with state capture under former president Jacob Zuma (Alence and Pitcher 2019). This case illustrates two alleged threats to solar energy transition in South Africa: i) efforts to stall these projects by government connected private coal industry interests, and ii) negative consequences of solar projects for local communities.

Firstly, the Ministry of Energy of South Africa started a programme of renewable energy plant projects (including solar, biomass, wind, and others) in 2011 which opened the door for private companies to bid for building such plants (Joubert 2016). In 2016, the national utility company Eskom stalled the approval of the last batch of plants citing concerns about the financial sustainability of the programme (Joubert 2016). This move coincided with the publication of the report on state capture issued by the Office of the Public Protector which tracks corrupt networks involving an Indian family, called Gupta, who have business interests in the coal industry, and who have allegedly exerted

influence at the highest levels of the South African government (Joubert 2016; Sovacool 2021).

Investigation into corrupt networks around former president Jakob Zuma, among many other issues, points to the alleged corrupt practices of Eskom and the influence on contract awarding and policy formation by the Gupta family (Cocks 2022). The fourth report of the Zondo commission⁸ accuses former president Jacob Zuma of helping the Gupta brothers to pursue their interest in the coal industry by taking control of Eskom, the largest electricity producer in Africa. Once a healthy company, Eskom became heavily indebted over the years due to corrupt practices (Chanson 2022).

Secondly, the available evidence suggests that the outcomes of many solar projects in South Africa have been exclusionary and exploitative for those living nearby these developments (Sovacool et al. 2019; Sovacool 2021). Moreover, in some of the approved projects, community trusts were established without the consent of local communities, resulting in the appropriation of community assets, including land, for solar plant projects (Sovacool et al. 2019; Sovacool 2021).

Further, firms and politicians with business connections in the Global North can be the drivers of grand corruption risks in the developing world (Rahman 2020:5). For example, one former UK minister, Sandip Verma, has been accused of violating the ministerial code after her family firm signed a multimillion deal to supply Uganda's government with solar power equipment (Rahman 2020:5; Syal 2020). In another case, the Anti-Corruption Prosecutor's Office in Spain charged an energy firm, Duro Felguera with crimes of

international corruption and money laundering. The allegations involved paying bribes to senior Venezuelan officials to obtain contracts to build an energy plant (Dell 2020:10).

Summary: Grand corruption and renewable energy transition

The existing evidence of grand corruption in renewable energy transition suggests that institutionalised grand corruption is the most prominent form. This is likely related to the fact that the process of renewable energy transition involves large public procurement contracts, state subsidy schemes and other incentives which can be redirected to politically connected actors. A detailed summary is provided in Table A1.

The negative consequences of grand corruption on the renewable energy transition

How does grand corruption undermine international efforts to promote the transition to renewable energy sources? Existing evidence suggests the following negative consequences.

For example, a common feature in the Western Balkan countries pursuing small hydropower plant projects was the poor enforcement of environment protection laws. Consequently, state subsidies and lax regulations had serious negative environmental consequences in some cases, as mentioned in the previous section (Đorđević 2020). The procedures for ensuring environmental protection prior to issuing permits for plants were often bypassed: at least 24 out of 166 small hydropower plants – around 20% – connected to the Serbian national grid in 2019 were constructed without key

⁸ The official name is the Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector Including Organs of the State (Zondo commission). This was a public inquiry established in January 2018 to investigate

allegations of state capture, corruption and fraud in the South African public sector (Maseko 2022).

environmental permits (Đorđević 2020). Poor enforcement and lax regulations create a fertile ground for corruption, especially in contexts with strong ties between politics and business, which is the case in the Western Balkans (Đorđević 2020).

Furthermore, these small hydropower plant projects were harmful for local communities in Montenegro and elsewhere in the Western Balkans. They frequently resulted in the local population being deprived of water for irrigation and for animals to drink, disrupted riverbanks and caused deforestation in the process of creating access for the construction of pipelines (Gallop et al. 2019; Todorović 2020).

Corruption has also been found to increase the cost of renewable energy projects, and these costs can affect any stakeholder in the energy sector (see Table 1 below) (Lu et al. 2019). A study from Bangladesh has found evidence that the capital cost of power plants is twice of the global average (Debnath and Mourshed 2018). The study also finds evidence that higher corruption increases capital costs (Debnath and Mourshed 2018).

A recent study by Sovacool (2021) identifies the negative effects of corruption on different energy stakeholders (Figure 3).

Figure 3. Impact of corruption on different energy stakeholders. Source: Sovacool 2021:5.

Stakeholder	Impact of corruption
Energy consumers	Higher energy prices; less affordable and reliable energy supply; negative environmental, health, and safety impacts.
Local inhabitants and communities	More negative environmental and social impact projects; fewer social or external benefits; higher impoverishment risks; fewer funds for local communities for compensation of damage, mitigation of negative impacts and benefit-sharing; fewer climate change mitigation commitments and a higher vulnerability to climate change.
Energy companies	Lower efficiency in operation; higher negative environmental impacts and environmental taxes; higher costs of energy supply; higher interests and borrowing costs, including higher equity costs; fewer financial resources for service expansion and quality improvement; delayed and overpriced infrastructure projects; higher debts, losses, and risk of bankruptcy.
Governmental institutions and bodies	Higher energy sector costs; higher budget spending for repayments of loans or loans guarantees and support for vulnerable population; negative impact on social and environmental policies implementation; negative environmental impacts and related health impacts requiring more mitigation actions; slower economic growth and job creation; increase in energy and other poverty and vulnerability of population; increase in social tensions, political instability risks.
Independent Power Producers, private business developers in the energy sector	Distortion of competition; unfair competition and efficiency losses; wasted tender payments and other additional expenses and losses; rescinded approvals, terminating the projects.
Financing institutions	Higher risks and dangers of reputation; higher demand for borrowing; additional costs and fraudulent claims; adverse selection and moral hazard problems; risk of bankruptcy and financial crisis.

Table 2: Summary of the key findings on grand corruption in renewables: key forms, manifestations, actors, and examples.

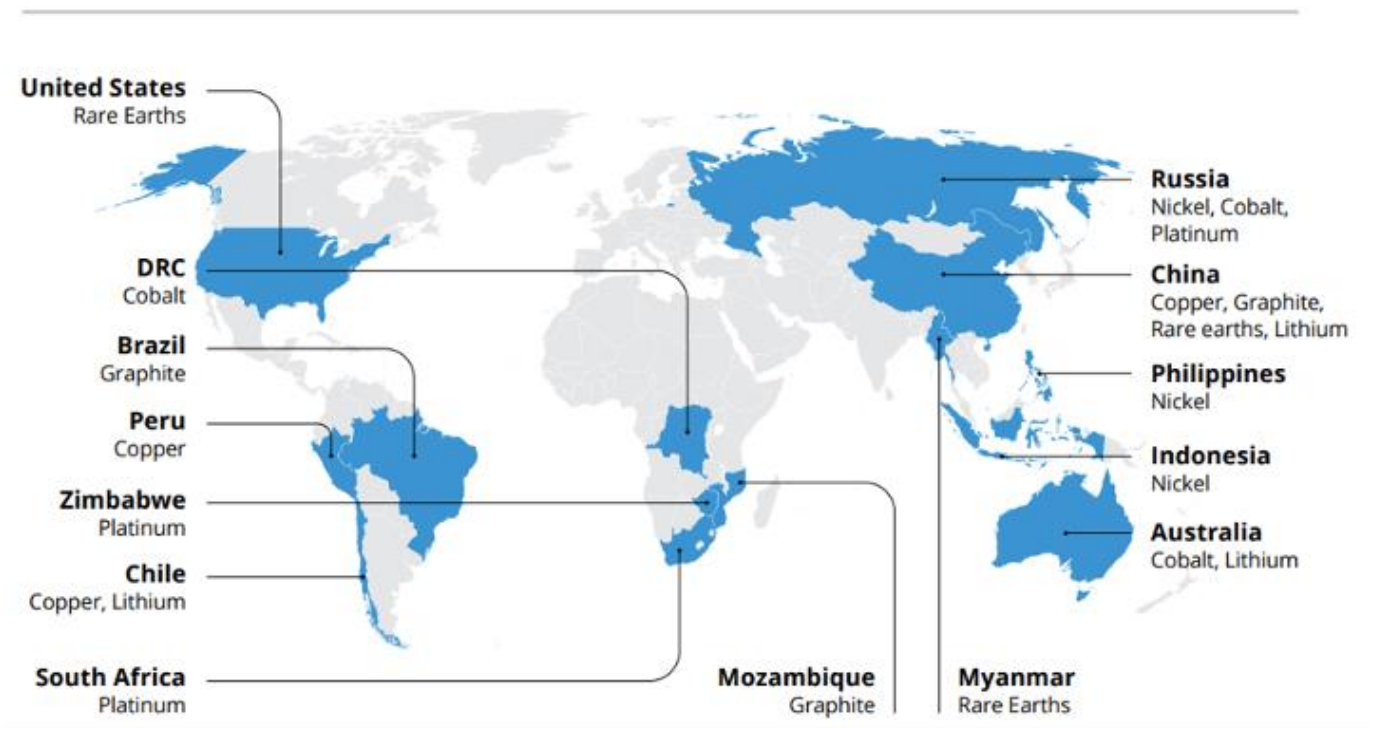
Key manifestations	Key Actors	Examples
<p>State capture in renewables may manifest through tailor-made legislation benefiting politically connected businesses.</p>	<ul style="list-style-type: none"> - Political parties - Regulatory bodies - Politically connected domestic firms - International firms - Organised crime groups - Financial institutions 	<p>Examples of these practices can be found in North Macedonia and Montenegro in relation to incentives for hydropower plant projects within renewable energy transition (MANS 2017; Taseva 2020).</p>
<p>Institutionalised grand corruption in renewables manifests through the diversion of public funds into the hands of political and business elites by bending the regulations. Politicised allocation of resources is the main characteristic of this form of corruption.</p>		<p>Examples of these practices can be found in small hydropower plant projects in Serbia, wind energy projects in Italy and solar projects in Kenya (Gennaioli and Tavoni 2016; Kostić and Đorđević 2018; Sovacool 2021).</p>
<p>A transnational component of grand corruption in renewables may manifest through state capture by foreign multinational corporations and foreign bribery.</p>		<p>Examples include state capture allegations in solar power projects in South Africa and foreign bribery in energy plant contracts in Venezuela (Sovacool et al. 2019; Dell 2020).</p>

Critical minerals

As we have seen in the previous sections, fast transition to renewable energy technologies is a necessary part of the efforts to curb climate change and reduce dependency on fossil fuels. Critical minerals are an essential element of the renewable energy transition (Church and Crawford 2020). To manufacture renewable technologies, different critical minerals, such as lithium, nickel, cobalt, rare earth minerals, copper, aluminium, are needed (The African Climate Foundation 2022).

This need for critical minerals creates some important challenges as there are risks of grand corruption. As in the case of renewables, contextual factors may be enablers of grand corruption in critical minerals. Thus, it is important to be mindful of local contexts when analysing the links between grand corruption and climate change policies. An important challenge is that many critical minerals necessary for renewable transition are located in countries characterised by high levels of corruption (See Figure 4) (Caripis 2022).

Figure 4. Top producers of critical minerals. Source: Caripis 2022 (Adapted from IEA (2021) The Role of Critical Minerals in Clean Energy Transitions).



In general, the mining process itself is vulnerable to corruption risks as case studies in [Transparency International's Accountable Mining Programme](#) have shown. This is particularly the case for the licensing process (when governments decide whether to approve a mining project or not), where grand corruption can be a risk, as will be discussed in the following sections (Caripis 2022). With regards to mining approvals, somewhat surprisingly, a Transparency International study (Caripis 2017) has shown that context is less relevant, and that corruption risks exist across the globe regardless of the country's levels of economic development, political context, geography or the size of the mining sector.

Caripis (2022) suggests three broad reasons for an expected increase in corruption risks in energy transitions related to critical minerals:

- There are more and more mining companies willing to operate in countries that were previously perceived as risky to invest in. That means many more companies, which either have poor anti-corruption safeguards or do not care for corruption altogether, will enter the critical mineral markets.
- There is a greater participation of the state in the critical minerals boom. This creates the danger of a “race to the bottom” in regulatory standards to attract investment. Additionally, governments may require foreign investors to partner with local suppliers, which opens the space for favourable treatment of politically connected businesses.
- The increase in demand will additionally burden the institutions which are under-resourced to begin with, thus increasing risks of bribery in the licensing process.

Mining approvals are, by their nature, contested as they involve many different stakeholders (including mining companies, governments, affected communities, civil society) who all assign a different value to mining projects (Grice 2021:10). The combination of these various interests on the one hand with characteristics of the sector on the other, such as large capital expenditure and close interaction with public officials for licences approvals, further exacerbate corruption risks (Grice 2021:11).

Moreover, the COVID-19 pandemic had an impact on corruption risks, considering that some governments further relaxed licensing conditions during the pandemic and that governments in many jurisdictions classified mining as an essential industry during the pandemic (Grice and Bieske 2021; Grice 2021).

A boom in critical minerals can also bring important negative environmental consequences. A study in *Nature* has found that threats to biodiversity caused by mining may be higher than those averted by climate change mitigation (Sonter et al. 2020). Moreover, the mining industry performed surprisingly well during the pandemic, as it was deregulated in many countries and received incentives to mine critical minerals (van Halm 2022).

State capture in critical minerals

The legislative framework around mining rights has been shown to be vulnerable to state capture risks across different contexts.

In Armenia, there is some evidence of state capture affecting the allocation of mining rights. Mining companies may provide “charity” payments to different foundations prior to obtaining licences (Transparency International 2017:3). It appears that many of these foundations are related to the

top-level political officeholders or leaders of the local communities affected by mining (Transparency International 2017:3). Cases exist where such payments were followed by legislative amendments favouring particular mining projects, thus exemplifying state capture (Transparency International 2017:3). These practices may suggest that donations were made to provide narrow benefits to mining companies at the expense of public interest.

In Australia, industry influence over the resource sector has been identified as a corruption risk in the governance of mining, with a potential for state capture (TI Australia 2017: 46). There are criminal investigations in Australia involving politicians with close links to the mining industry for corruptly influencing the mining approval process. In some cases, these investigations led to convictions (ICAC 2016; TI Australia 2017).

Further, a study on corruption risks in mining during the COVID-19 pandemic (Grice 2021:58) notes that many civil society representatives have raised concerns that corporate donations during the pandemic may increase the risk of state capture.

Regulatory capture in critical minerals

Evidence of capturing agencies that are central to issuing mining permits and regulating the sector is also found in the critical minerals sector.

In Guatemala, the revolving door between the Ministry of Energy and Mines and the Ministry of Environment and Natural Resources on the one hand and top-level positions in national mining companies, which are subsidiaries of multinationals, on the other, increase risks of regulatory capture (García and Lopez 2017:53). A number of former political officeholders in Guatemala had links to mining companies, either

directly or indirectly through their family members, which blurs the boundaries between public and private interests (García and Lopez 2017). For example, ties were discovered between the ex-minister of energy and mines, Erick Archila Dehesa, his family and companies in the extractive sector, and decisions they made while in these positions may have benefited the private sector (García and Lopez 2017:69).

In the DRC, one important vulnerability to regulatory capture relates to the financial dependence of certain institutions, such as the reliance of the Mining Cadastre and Mining Administration on funding from applicant companies. Due to insufficient funds, the applicants for exploration or operating permits have to pay for the meetings of the Permanent Committee for the Evaluation of Environmental Plans (Kabongo and Hengelela 2017:30).

Institutionalised grand corruption in critical minerals

Institutionalised grand corruption in critical minerals is characterised by redirecting mining licences to politically connected companies.

In Indonesia, changes to the mining law introduced “an opaque system for auctioning mining zones” (Caripis 2017:6). Under this law, it was not clear how the mine work areas were determined, which opened a lot of space for the politicisation of the process and the capturing of the process of licence allocation (Caripis 2017). Unclear procedures allegedly enabled a provincial governor to issue licences and allocate forested areas in exchange for kickbacks (Caripis 2017).

The Armenian case suggests that companies engaged in mining are registered in offshore havens, which makes the identification of beneficial owners much harder. Additionally, Armenian law

protects the identity of owners of joint stock companies (Transparency International 2017:3). Some evidence suggests that high-ranking political officeholders are behind some of the companies (Transparency International 2017; Caripis 2017). Investigative journalists discovered that the former minister of nature protection of Armenia gave licences to open dozens of mines to firms belonging to his family members (Caripis 2017:24).

The risks of institutionalised grand corruption are especially high when top-level government officials can interfere with licensing decisions for mining rights (Caripis 2017). In Zambia, a licensing committee in charge of evaluating applications of companies and granting licences has ministerial members delegated by the mining minister who also has an authority to overturn committees' decisions as long as they provide a justification (Caripis 2017:50). This gives space for political interference in the licensing process, which may result in redirecting licences to politically connected companies. In 2015, the former mining minister of Zambia, Maxwell Mwale, was convicted of interfering with the licensing process (Reuters 2015; Caripis 2017).

Further, unclear criteria for evaluating tender bids and documentation are an important source of corruption risks. In Mongolia, there is evidence of a former member of a tender commission being allegedly pressured by senior officials to favour a particular bidder by manipulating the tender documentation for mineral licences (Caripis 2017:50; Biastoch 2017). One important issue relates to the discretionary power of important stakeholders. For example, in Guatemala, the time to process mining licences is largely arbitrary: it

can take anywhere from 6 months to 4 years. This increases the risk of bribery to speed up the process (García and Lopez 2017:64). There is evidence alleging that the government led by the Patriot Party asked for payments for the minister to sign the award (García and Lopez 2017:64).

In Indonesia, there is evidence of widespread bribery in licensing, consisting of companies bribing regional leaders who have the authority to issue permits for exploration and exploitation of natural resources (Adjie 2020).

Lobbying and other grey areas in critical mining

The lack of transparency in lobbying activities has been an important source of grand corruption risks in critical minerals. In the absence of clear procedures, it is hard to follow the money and assess whether there has been an undue influence from interest groups on the formation of laws, rules and regulations that would benefit these interests at the expense of the public (Caripis 2017). In these cases, unequal access to lobbying and a lack of transparency can create fertile ground for state capture to emerge.⁹

In Transparency International's study on accountable mining (Caripis 2017) the risk of mining laws being designed to favour narrow private interests has been assessed as high in six countries. Among others, a lack of transparency in lobbying and political donations was a typical source of this risk (Caripis 2017:30).

In Indonesia, there is evidence of mining companies claiming that candidates in provincial elections demanded donations in exchange for

⁹ For example, Caripis (2017:29) emphasises the risks of revolving door practices, lobbying and political donations resulting in policy capture.

preferential treatment in mining licence allocation if they get elected (Caripis 2017:31).

Further, while Chile has established some controls on lobbying since 2014, there are still certain loopholes. While there is an obligation to disclose all meetings held with and requested by lobbyists, there is no obligation to do so for those meetings requested by the government or those that discuss “technical matters” (Caripis 2017:30; Cárcamo et al. 2017).

During the COVID-19 pandemic, mining companies directed their philanthropic activity to support the pandemic response in countries in which they operate (Grice 2021). While commendable, these kinds of donations also bring corruption risks, particularly from those mining companies which do not have proper business integrity systems in place (Grice 2021:57). Grice (2021:57) notes that some civil society organisations (CSOs) expressed concerns that mining companies may use their social investments for lobbying the governments to pursue their commercial interests, such as obtaining mining licences.

Grice’s study identified examples of mining companies lobbying during the pandemic to obtain licences or get tax breaks and other levies while using their contributions during the pandemic as an argument (Grice 2021). For example, in Australia, the Mineral Council of Australia stressed their economic contributions during the pandemic while calling for more competitive taxation and faster project approvals in a blog post on their website (Grice 2021:60).

In Mexico, CSO representatives expressed concerns that donations from mining companies during the

pandemic for healthcare goods and services to support local communities have been used as leverage to get the support of these communities for mining interests in these companies’ dealings with the state (Grice 2021:61).

There are also concerns of unequal access, which is particularly troubling considering the evidence that unequal access to decision makers in climate policies can open the space for serious corruption risks (Mullard 2021). Namely, some CSO representatives in Mexico noted that the mining sector participated in the economic recovery talks with the government in 2021, while they were not invited (Grice 2021). Moreover, priority given to the mining industry in Mexico as an essential industry during the pandemic has created a situation of unequal access to the state (Grice 2021). CSOs note that different groups became affected differently in the pandemic: while the mining industry got easy access to decision makers, communities and CSOs had difficulties exercising their rights (Grice 2021:69).

Transnational aspect of grand corruption in critical minerals

The involvement of foreign multinational corporations is an important feature of the critical mineral markets. Some evidence suggests the existence of grand corruption risks.

In the DRC, the mining code of 2002 officially aimed to liberalise the sector and create a level playing field for mining companies. However, it further entrenched the privileged position of state-owned companies¹⁰ as they could keep most of their valuable permits and sell them for

¹⁰ State-owned firms, particularly Gécamines in the mining sector, played a prominent political role throughout the DRC’s modern history, helping to sustain patronage networks during Mobutu Sese

Seko, and keeping their privileged position even after the reforms introduced with the Mining Code of 2002 (The Carter Center 2017).

concessions to other firms (The Carter Center 2017). State-owned firms typically had most of the mining rights “in commercially exploitable and profitable deposits” (Kabongo and Hengelela 2017:24; Caripis 2017). As a consequence, it became common for firms to obtain mining rights by getting into joint ventures with these state-owned companies. Blurry conditions for negotiating these joint venture arrangements undermined the very procedure of licensing as per the mining code of 2002.

The Congolese state has sold assets at a sixth of their market value, on average, enabling huge profits for foreign firms (Caripis 2017). Moreover, most of these deals between state-owned companies and international private firms were conducted behind closed doors without proper tenders to identify the best qualified offer, raising the risks of corruption (Kabongo and Hengelela 2017:24; Caripis 2017).

An important challenge lies in the fact that in practice, Congolese state-owned companies sometimes take over the role of the state, while at other times operate as regular mining companies (Kabongo and Hengelela 2017:24). Consequently, these ambivalent governance practices make it harder to control them and open a door to corruption risks. This is particularly relevant considering the evidence of interference by political authorities, secret services and private interests in mining activities, as well as the direct involvement of top-level political office holders in mining contract negotiations (Kabongo and Hengelela 2017).

For example, there is evidence that in 2010 and 2011 an Israeli businessman, Dan Gertler, a close friend of Joseph Kabila, the Congolese president at the time, was a key intermediary through whom Glencore acquired stakes in Congolese mining ventures for cobalt production (Global Witness 2012; Kabongo and Hengelela 2017:33). These

stakes were secretly, and at an undervalued price, divested to offshore companies, most of which were tied to Gertler (Global Witness 2012).

In 2017, under the Global Magnitsky Human Rights Accountability Act, former president Trump signed an executive order which sanctioned Dan Gertler, among others, (US Department of Treasury 2017). The executive order stated that in his role as middleman for mining asset sales in the DRC, the DRC reportedly lost more than US\$1.36 billion in revenue from under-pricing mining assets that were then sold to offshore firms tied to Gertler (US Department of Treasury 2017).

In Guatemala, a leak of more than 8 million documents revealed how the mining company Solway captured local police and Indigenous leaders to counter local resistance to the extraction of nickel from Indigenous lands (El Faro 2022). There is also evidence of the influence of Solway on top-level government officials. Leaked documents reveal that when the Q’eqchi’ Ancestral Councils closed the road leading to the dig site during protests, Solway asked the government for help (El Faro 2022). A few days after the request, President Alejandro Giammattei declared martial law, and security forces escorted trucks to the dig site and arrested a number of community leaders (El Faro 2022).

Further, corruption allegations exist about Chinese companies that operate in the DRC, also allegedly involving human rights violations through subcontracting schemes (Castillo and Purdy 2022:16). For example, a DRC court ruling removed a Chinese company, China Molybdenum, from the leadership at the Tenke Fungurume copper-cobalt mine for six months. The company was accused of corruption, including underreporting mineral reserves to reduce annual payments as well as bribes to hide poor labour conditions (Castillo and Purdy 2022:16).

U4 Anti-Corruption Helpdesk

Finally, foreign bribery has been evidenced in critical minerals, particularly with regards to issuing licences. For example, in 2014 Alcoa World Alumina LLC pleaded guilty on charges that it paid millions of dollars in bribes through a middleman in London to officials in the Kingdom of Bahrain to secure business (The US Department of Justice 2014).

Summary: Grand corruption and critical minerals

Existing evidence of grand corruption in critical minerals suggests that the transnational component of grand corruption and unequal access to lobbying are the most prominent forms. This is likely related to the fact that multinational corporations typically play a key role in critical mineral supply chains and that obtaining mining licences are among the most essential steps in the process. A detailed summary is provided in Table A1.

The negative consequences of grand corruption in critical minerals

Grand corruption in critical minerals has a range of serious negative consequences as mentioned in the introduction to this section on critical minerals.

First, there is broad evidence linking grand corruption in critical minerals to environmental degradation. In Myanmar, a boom in illegal rare earths mining has fuelled environmental destruction, among other negative consequences. Global Witness (2022d) reports that there were more than 2,700 rare earth mining sites in North Myanmar by March 2022. As the process of extraction of rare earths are highly polluting, the consequences for the local ecosystems and access to drinking water were devastating (Global Witness

2022d, 2022e). Moreover, the expansion in rare earth mining is causing deforestation and the biodiversity loss of rare plants (Global Witness 2022d, 2022e). The beneficiaries of these illegal trades include local warlords who control militia units that are part of the Myanmar military's chain of command (Global Witness 2022d, 2022e).

In Guatemala, current and former top-level political officeholders, including the current minister of energy and mines, Alberto Pimentel Mata, were accused of allowing the Fénix mine¹¹ to extract nickel, contrary to Guatemala's top court ruling that extraction cannot be continued (Madureira 2022). Allegedly, the Fénix mine leached contaminated water into Lake Izabal polluting it with heavy metals (Madureira 2022; Moskowitz et al. 2022).

Second, grand corruption can divert public resources towards narrow interests. For example, there is evidence suggesting that mining plays a substantial role in financing armed groups in the DRC and also contributes to rent extraction (Faber et al. 2017; Callaway 2018; UN Environment Programme 2022). The UN Group of Experts on the DRC (2019) has found evidence of smuggling minerals by armed groups involving criminal networks as well as specific instances of some Congolese government officials being involved in the diversion of minerals. Further, hundreds of millions of dollars were lost at the DRC state-owned company Gécamines between 2011 and 2014, with direct ties between the missing money and multinational cobalt and copper mining firms (Callaway 2018:5).

Third, corruption in critical minerals also has negative consequences on labour rights. In the DRC, multinational companies largely rely on sub-

¹¹ A subsidiary of the Swiss mining company Solway (Moskowitz et al. 2022).

contractors for supplying the workforce. This results in a two-tiered employment system, where workers employed through sub-contractors are subject to lower wages, lower or no benefits, and a lack of job security (RAID 2021:25). Some evidence suggests that Congolese government officials and their family members take advantage of this system by controlling companies that act as sub-contractors (Callaway 2018). For example, Bloomberg reported that the brother of former Congolese President Kabila owned a firm which acted as a sub-contractor for a Canadian mining firm (Wilson 2017; Callaway 2018).

Fourth, there is a range of human rights abuses linked to grand corruption in critical minerals. Namely, in the DRC, corruption within the Support and Supervision Service for Small Scale Mining (SAEMAPE), the government agency supposed to provide technical assistance, lead to safety problems for artisanal and small-scale miners (ASM) (Callaway 2018:19). Evidence suggests that SAEMAPE staff would tolerate digging deeper than the legal limit in exchange for payment, which creates a serious life risk for miners due to possible landslides and mine collapses (Callaway 2018:19). While these practices technically belong under lower levels of corruption, Callaway (2018) notes that they are deeply entrenched in the system of violent kleptocracy of the Congolese regime.

In Myanmar, Global Witness (2022d, 2022e) reveals that illegal trade in rare earth minerals is fuelling human rights abuses. A highly polluting extracting process required for these minerals is causing serious health issues for residents living near these mines, including respiratory diseases, osteoporosis and skin and eye problems. Moreover, civil society groups and Indigenous leaders are faced with death threats from militias for opposing this illicit mining (Global Witness 2022d, 2022e).

Table 3: Summary of the key findings on grand corruption in critical minerals: key forms, manifestations, actors, and examples.

Key manifestations	Key Actors	Examples
<p>State capture in critical minerals mainly relates to the procedure to obtain mining licences by influencing the law-making process. Blurry links between politics and business, as well as unclear procedures for corporate donations may increase these risks.</p>	<ul style="list-style-type: none"> - Multinational corporations - State-owned domestic firms 	<p>Some evidence of state capture with regards to the allocation of mining rights can be found in Armenia (Transparency International 2017).</p>
<p>Regulatory capture in critical minerals may develop out of overly-close ties between politics and business via revolving door practices, for example, as well as in cases of problematic institutional solutions that introduce relations of dependency between regulatory agencies and mining companies.</p>	<ul style="list-style-type: none"> - Government officials - Ministries - Political parties - Domestic politically connected firms 	<p>Revolving door practices between mining ministries and mining companies in Peru increase risks of regulatory capture (García and Lopez 2017:53).</p>
<p>Institutionalised grand corruption in critical minerals manifests in the diversion of public resources or business opportunities to politically connected businesses by bending rules, exploiting legal loopholes, or outright political interference. These practices thrive in contexts with too much discretion, unclear laws and authorities, and a lack of proper mechanisms to detect conflicts of interest.</p>	<ul style="list-style-type: none"> - Professional enablers 	<p>An example from Indonesia suggests that changes to the mining law introduced a lot of uncertainty with regards to auctioning mining zones and opened a door for politicisation of the process (Caripis 2017).</p>
<p>Lobbying in critical minerals in contexts with poor and/or unclear regulations may result in unequal access to decision makers. These risks are particularly prominent since the COVID-19 pandemic when many companies redirected their philanthropic activities towards supporting pandemic challenges (Grice 2021). In contexts with unclear regulations, it becomes much harder to assess to what extent these and similar corporate contributions are used to exert undue influence on decision makers to obtain mining licences, tax breaks and other benefits.</p>		<p>Some evidence from Indonesia suggests that provincial election candidates requested corporate donations in exchange for preferential treatment with regards to mining licenses (Caripis 2017)</p>
<p>Transnational component of grand corruption in critical minerals manifests in a number of different forms which include: i) extraction of financial resources with the help of professional enablers and networks of offshore companies to the benefit of political officeholders and multinational corporations; ii) capture of various domestic stakeholders by multinational mining companies to pursue their operation despite environmental degradation or human rights violations and iii) bribery by multinational corporations in exchange for securing mining licences in producing countries.</p>		<p>For example, a large document leak in Guatemala demonstrated how multinational mining companies capture political officials, leaders of indigenous communities, and police to counter local resistance to mining (El Faro 2022).</p>

U4 Anti-Corruption Helpdesk

Grand corruption in biodiversity loss

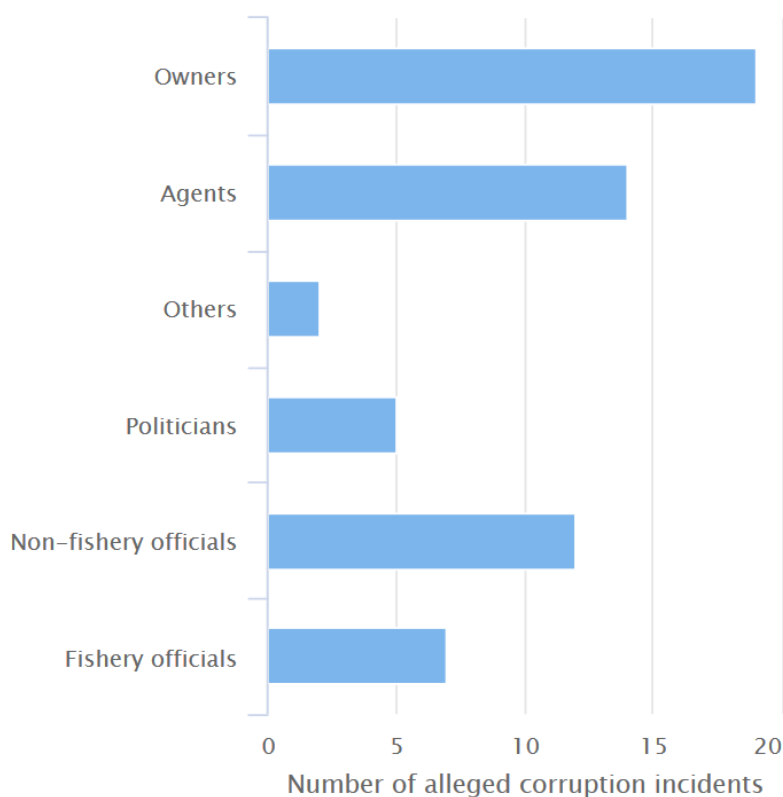
Corruption can be an important factor in undermining international efforts to counter biodiversity loss as it may facilitate wildlife, forest and marine crimes (WWF and TRAFFIC 2015). As discussed in detail in the following sections, corruption takes various forms in relation to biodiversity loss, from bribery to obtain export permits, for example, to complex networks of political, business and organised crime actors in wildlife trafficking (see WWF and TRAFFIC 2015; Kramer et al. 2020).

It is important to note that the specificities of different types of biodiversity loss and national

contexts are necessary to consider when analysing grand corruption risks in relation to biodiversity loss. For example, fishery as a sector has some characteristics which make it vulnerable to grand corruption, including the transnational nature of the industry, the lack of transparency within it and the scarcity of fishery resources (Stop Illegal Fishing 2021:3).

Specifically, an analysis of 20 investigations into illegal, unreported and unregulated (IUU) fishing activities between 2012-2019 published by FISH-I Africa, a fisheries task force in the southwest Indian Ocean, suggests a broad network of actors allegedly involved in corrupt activities (see Figure 5) (Stop Illegal Fishing 2021:8).

Figure 5. Alleged corruption incidents and actors' distribution. Source: Stop Illegal Fishing 2021:8.



The figure suggests, for example, that politicians were involved in five cases of alleged corruption.

State capture in biodiversity loss

State capture risks appear in various areas related to biodiversity loss. For example, evidence from Peru suggests that corruption in logging is particularly prominent due to three factors: overlapping interest of those in power positions – transfers from business to politics (resulting in influencing the policymaking process and the allocation of transport permits), informal networks and a lack of representation (Gianella et al. 2021; Bargent 2019; Navarro Gómez 2019).

For example, in Ucayali's forest sector there is a duality of roles, as "timber barons were involved in the political and administrative management of the region's forests" (Gianella et al. 2021:11). After a decentralisation move in 2009, regional forestry directorates were created, taking control of the most valuable resource for illegal timber trade, the transport permit (Bargent 2019). Allegations and prosecutions were made against some members of the Ucayali administration for issuing false forest transport permits to facilitate illegal logging (Bargent 2019). Moreover, two timber barons ran for the governor in the 2018 elections (Gianella et al. 2021).

As in other weakly institutionalised contexts, there are blurry lines between political and business interests in Peru, and frequent moves from business to political roles further strengthen informal relations and facilitate the capture of

institutions to achieve narrow benefits to connected economic elites (Gianella et al. 2021).

Further, Reducing Emissions from Deforestation and Forest Degradation (REDD+), a mechanism for establishing financial incentives to encourage countries to reduce deforestation, is also vulnerable to grand corruption risks. Namely, a UNDP study on corruption risks in climate change (Thorpe and Ogle 2015) suggests that corruption risks in REDD+ depend on the phase.

The readiness phase, for example, is more likely to be affected by state capture, where networks of actors involving politicians, logging companies, agribusiness, multinational corporations and the military may try to influence the design of a country's national REDD+ framework (Thorpe and Ogle 2015). These actors may try to capture the formation of rules, laws and regulations to influence their favourable position for capturing REDD+ revenues (Thorpe and Ogle 2015). For example, in the REDD+ readiness phase, each REDD+ country needs to review its spatial and forestry plans to identify forested areas suitable for REDD+ (Thorpe and Ogle 2015:33). In this phase, logging companies may try to influence the design of these plans to exclude valuable timber concessions from REDD+ (Thorpe and Ogle 2015:33).

Regulatory capture in biodiversity loss

Some examples resembling regulatory capture exist in relation to biodiversity loss. For example, the International Seabed Authority (ISA),¹² an industry regulator, has been favourable to the "development of deep sea mining over the preservation of the deep ocean", according to Greenpeace

¹² This body is mandated under the UN Convention on the Law of The Sea to organise, regulate and control mineral-related activities in the international seabed area (ISA no date).

International (2020:3). Their report refers to promoting comments by ISA staff and points out that ISA's advisory commission also has experts employed by deep sea mining corporations (Greenpeace International 2020:3).

Although private mining companies do not have the status of participants at ISA annual meetings, nor can they obtain observer status, contractors do attend ISA meetings in Jamaica, sometimes as members of state delegations (Greenpeace International 2020:25). For example, in 2019, in the ISA council session, spokespeople from the mining company DeepGreen and Global Sea Mineral Resources' (GSR) parent company, DEME, addressed the meeting from seats marked for Nauru and Belgium, respectively (Greenpeace International 2020:25).

Institutionalised grand corruption in biodiversity loss

Institutionalised grand corruption occurs in different spheres in biodiversity loss. While the general patterns of this behaviour seem to be similar across sectors, each has some specificities.

Investigations into fishery corruption, mentioned briefly in the previous section, suggest the existence of corrupt networks from different government departments, including maritime or port officials, which rarely overlap (Stop Illegal Fishing 2021:9-10). Moreover, some evidence suggests that typically a senior civil servant or a politician plays the role of "kingpin" controlling

sector-specific networks (Stop Illegal Fishing 2021:9-10).

Interview evidence collected by Stop Illegal Fishing (2021) suggests that financial gains from suspected corruption are distributed among the members of a network facilitated by the kingpin, with reports of these occurrences in Kenya, Somalia and Tanzania. In these contexts, cases were reported of senior officials using intimidation tactics on enforcement officers not to perform their duties, such as monitoring vessel activities (Stop Illegal Fishing 2021:10). Important facilitators of many corrupt activities seem to be fishery agents¹³ who may act as a bridge between vessel owners and officials and perform the roles of contacting government officials and facilitating corrupt payments (Stop Illegal Fishing 2021:11).

In the forestry sector, evidence from Indonesia suggests the existence of complex corrupt forestry networks resembling practices of institutionalised grand corruption. The study by Baker (2020) looks at corrupt networks in the conviction of the former head of Pelalawan district, Tengku Jazman Jaafar, who, in 2009, was charged with abuse of power and violation of national forestry regulations and received a lengthy prison sentence (Parker 2014; Baker 2020). He was involved in a scheme of improperly issuing logging licences for plantation forests to 15 pulpwood companies (Baker 2020:2). In a decentralisation move in 2001, the central government granted governors and district heads the right to issue logging licences for timber plantations (Baker 2020:10). However, the following year, the whole process was recentralised. This did not stop local governors and regents who ignored

¹³ These agents, often required by law, provide different services to vessel owners and operators, including organising licences, hiring crew and other services (Stop Illegal Fishing 2021).

this decision and continued issuing permits based on expired regulations (Baker 2020:10).

An important node in the network led by Jafaar was a mid-ranking bureaucrat in the Pelalawan district forestry office who helped Jafaar set up six timber companies, which were essentially shells, with no operation history. A number of companies then nominated directors from Jafaar's kin network (Baker 2020:11). Social network analysis identified seven broad groups of actors in a corrupt network of 201 individual actors (Baker 2020:19):

- pulp industry
- district forestry
- other (this category includes oversight roles, such as media, civil society and government agencies, e.g. supreme audit commission)
- trust network
- non-pulp private sector
- provincial forestry
- government

The list suggests a complex network spanning politics, business, and administrative and oversight agencies, with myriad individual actors and roles, including legal advisers, accountants, local politicians, bureaucrats, auditors and managers (Baker 2020:20).

Lobbying and other grey areas in biodiversity loss

Unequal access to lobbying and related grey areas, such as corporate donations in weakly institutionalised contexts, are important to consider in relation to biodiversity loss.

There are reports of a small number of Global North based mining corporations that exert a strong influence on international negotiations on the future of seabeds (FISHSEC 2020). They lobby governments on the shape of the rules for the full-scale mining of the deep ocean, including the payment regime for private contractors and their royalty rate (FISHSEC 2020; Greenpeace International 2020). A Greenpeace International (2020) report reveals the key actors set to benefit from the deep sea mining industry by tracking the ownership and beneficiaries of private firms who are behind the calls to open the deep ocean to mining (FISHSEC 2020).

Revolving door practices are present here and may act as a trigger for unequal influence on decision makers. For example, Christopher Williams, a director at UKSRL, was previously a government private secretary in the UK Cabinet Office (Greenpeace International 2020). After working in the government, Williams began at Lockheed Martin as head of UK government affairs (Greenpeace International 2020:28).

Evidence from Indonesia suggests strong links between money and politics. Interviews with candidates in regional elections in 2015 suggest that most donors who financed their electoral campaigns demanded something in return, be it jobs, government contracts, policy influence or business licences for mines and plantations (The Gecko Project and Mongabay 2018). Moreover, when businesses have interests in particular regions they tend to put forward one of their own people into office. For example, a governor of Central Kalimantan, Sugianto Sabran, is the nephew of a timber baron, Abdul Rasyid (The Gecko Project and Mongabay 2018).

U4 Anti-Corruption Helpdesk

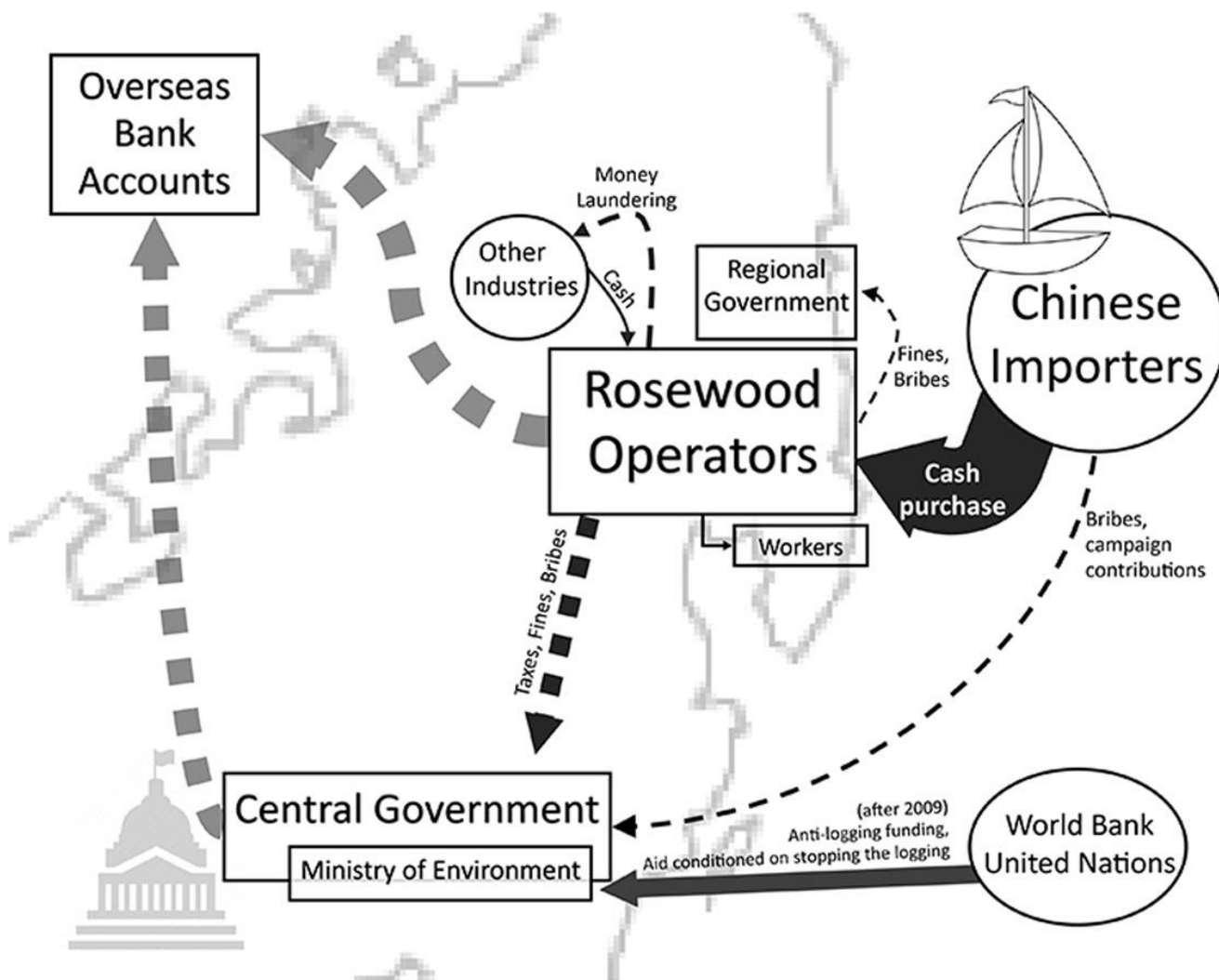
Transnational component of grand corruption in biodiversity loss

The transnational component manifests in multiple corruption forms, including state capture, institutionalised grand corruption and foreign bribery.

A study on rosewood trade from Madagascar (Anonymous 2017) provides evidence of state capture. It identifies a network of players in the

rosewood trade that spans national borders, and it includes the central government, overseas banks, Chinese importers, rosewood operators and the regional government (see Figure 6). Due to a high demand from China for rosewood furniture, complex smuggling routes have developed to facilitate illegal logging and trade (EIA 2014:3). These routes mainly went through Zanzibar and Mozambique (EIA 2014:3).

Figure 6. The mapping of financial flows and key actors in rosewood trade. The size of arrows reflects the approximate relative size of financial flows and their direction. Dashed lines refer to transactions of questionable legal status. Source: Anonymous (2017:10).



Evidence from multiple studies points out a close relationship between rosewood money and politics, as this money has been used to finance presidential elections since at least 2000 (Shuurman and Lowry 2009; Randriamalala and Liu 2010; Anonymous 2017). Rosewood attracted a significant portion of investments in Madagascar, especially after the coup in 2009. The contradictory regulations on rosewood trade largely benefited a small group of traders (Anonymous 2017). The main beneficiaries of this dynamic were a small elite group from the northeast who had ties with the Chinese market (Anonymous 2017). To regain control over the rosewood trade, the transitional regime after the coup adopted a restrictive anti-logging legislation which included cancelling prior licences and imposing heavy fines. Then, the Ministry of the Environment issued a decree authorising the ministry to distribute new export licences, which aimed to facilitate the monopolisation of the market (Anonymous 2017).

However, the full control of one side turned out to be impossible, due to strong local power-holders. Evidence suggests the existence of multiple captors and factions, rather than that of one strong leader or warlord who controls the resources in a top-down fashion, as was and is the case in some other contexts in Africa (Reno 1995, 1998; Anonymous 2017).

Leading up to the 2013 elections, rosewood operators from the northeast used the earnings from rosewood trade to gain popular support and transition to political office, thus formalising their power, blurring the lines between politics and business, formal and informal institutions (Anonymous 2017:172).

Further, mining is vulnerable to penetration by organised criminal networks with elements of state capture. For example, [illicit gold flows](#) are characterised by multiple manifestations of

corruption, ranging from small-scale illegalities at the level of the mine site to grand corruption by political elites and criminal consortia (Hunter 2019; Hunter et al. 2021; Resimić 2021). A myriad of actors is involved in facilitating illicit gold flows from East and Central Africa, for example. These include political officeholders, businesspeople, law enforcement, military, foreign nationals and gold dealers (Hunter et al. 2021:39-44).

Allegations of the involvement of top-level political officeholders and military officers in South Sudan and Uganda in the process of smuggling gold are widespread (Hunter et al. 2021:39). For example, there are reports of businesspeople in Kasese, a town in Uganda, who control the smuggling of gold between the DRC and Uganda by employing people on both sides of the border, including state officials and agents of foreign companies (Hunter et al. 2021:33; Resimić 2021:10). These criminal networks facilitate illicit gold flows.

Earlier studies have documented evidence that in South Sudan's Kapoeta, gold flows via networks of government officials and international mining interests (Enough Team 2020; Lezhnev 2021). In Juba, various actors in illicit gold flows are implicated, including Chinese nationals, political and business elites (Hunter et al. 2021:31; Resimić 2021:12). Allegations exist that politicians own shops in Juba and can easily fly the gold out of the country (Hunter et al. 2021:31; Resimić 2021:12).

Offshore shell companies are also used to facilitate shady gold business. For example, in 2007, the government of Azerbaijan granted rights to operate a gold mine in the village Chovdar to a British company AIMROC. However, the Panama Papers leak revealed that president Aliyev and his daughters may control majority of AIMROC's mining operations (Transparency International, 2021b) (see Figure 7). Lawmakers complained about irregularities in awarding the contract to

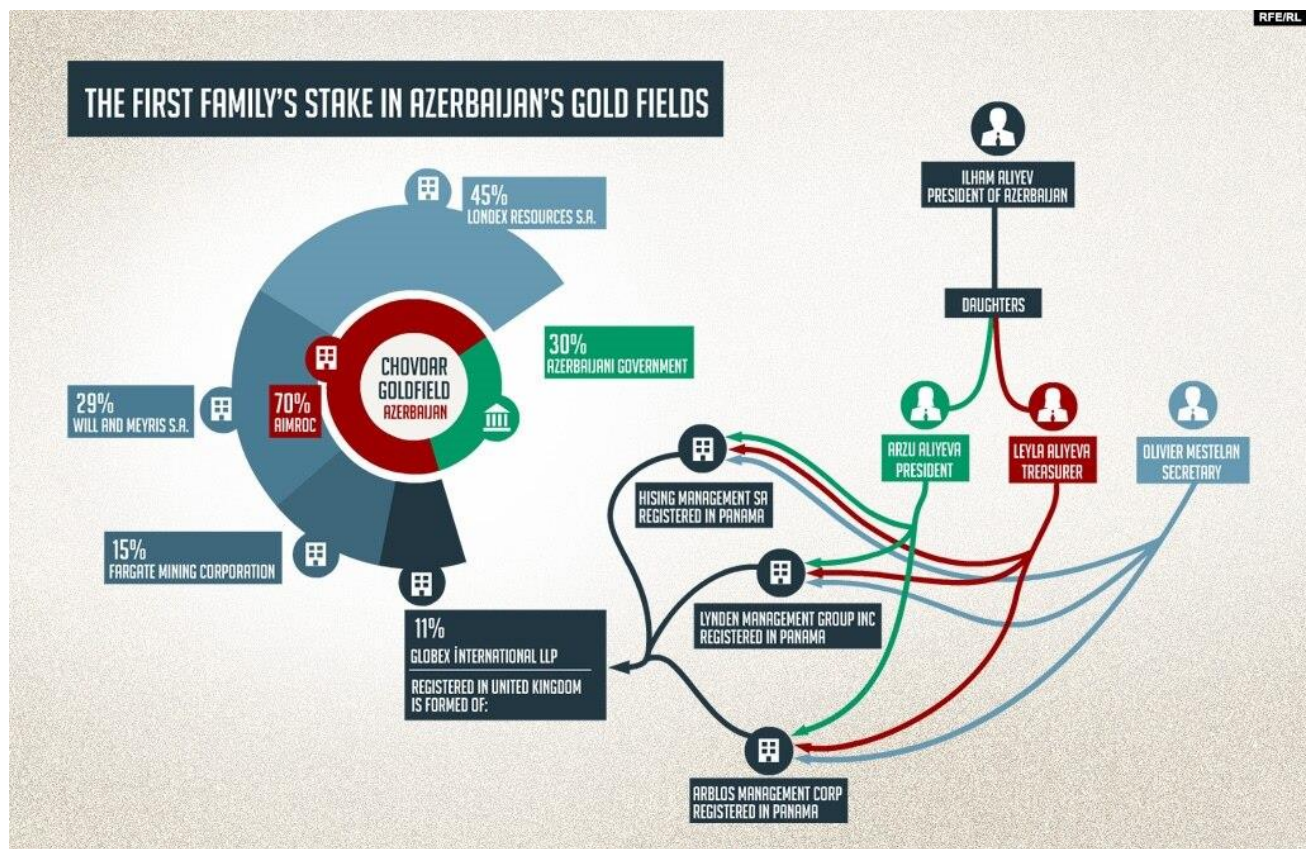
AIMROC, citing the opaque ownership structure of the consortium, violation of the bidding procedure, lack of history of mining of the companies involved in consortium and others (Fatullayeva and Ismayilova 2012).

Further, an investigation into seven Thai-owned, Djibuti-flagged trawlers suggests institutionalised grand corruption involving two different government networks (Stop Illegal Fishing 2021; Fish-i Africa 2019). In 2017, the trawlers were operating illegally in Somali waters along the Puntland coastline. Allegedly, Somali fishing licences were issued by the Ministry of Fisheries in Puntland, although only the federal government of Somalia had the authority to issue such licences to foreign vessels at the time (Stop Illegal Fishing 2021:10).

Allegedly, an agent for the vessel bribed a ministry official to issue a fake licence, and via his close ties to a senior politician in Puntland, he managed to gain protection for the vessels during their operation in Somali waters (Stop Illegal Fishing 2021:10). After the case became publicised, the vessel owners re-flagged them to Somalia. The federal government of Somalia sent a letter to Interpol noting that a junior officer in the Ministry of Ports had issued the false flagging documents, pointing out that the documents were issued illegally (Stop Illegal Fishing 2021:10).

This case also allegedly involved human rights violations as the Thai and Cambodian crew on these vessels were victims of human trafficking (Fish-i Africa 2019).

Figure 7. The ownership structure of the gold fields in Azerbaijan. Source: Fatullayeva and Ismayilova 2012.



Foreign bribery cases in fishery are also connected to companies coming from countries with low levels of corruption. In 2019, it was reported that a fishing conglomerate from Iceland, Samherji, paid bribes to government officials in Namibia and Angola in exchange for huge fishing quotas (Yan and Graycar 2020a; Reuters Staff 2020). The case involved former justice minister Sakeus Shanghala and former fisheries minister Bernardt Esau, who were accused of conspiring with Samherji to receive payments worth close to US\$7 million in exchange for fishing quotas (Reuters Staff 2020).

Media reports wrote about allegations that Esau, stripped some private firms of fishing quotas, giving them to state-owned company Fishcor and then passing them on to Samherji in exchange for payments (Reuters Staff 2020). This dynamic also suggests the existence of practices of institutionalised grand corruption with a transnational component, considering that resources are rerouted to politically connected companies (Reuters Staff 2020).

Further, hunting licences have also been shown to be vulnerable to institutionalised grand corruption. For example, in 2017 a 25-year-old hunting concession that was granted to a company owned by the UAE royal family was revoked due to alleged links between the company and the former Tanzanian Minister of Tourism. Media sources alleged that the royal family gave financial donations to the ruling party in 1994 and to the Ministry of Natural Resources and Tourism amounting to US\$2 million (OECD 2018:78).

Summary: Grand corruption and biodiversity loss

Existing evidence of grand corruption in biodiversity loss suggests that institutionalised

grand corruption and a transnational component of grand corruption are the most prominent forms. This is likely related to the fact that first, bending the rules to redirect resources to narrow, politically connected actors is relevant to biodiversity, due to the importance of licences, concessions and transport permits, whose allocation can be subject to political interference. Second, grand corruption related to fishery, logging and mining typically has a transnational component as these resources are usually moved across borders and they involve international actors to facilitate illicit behaviour. A detailed summary is provided in Table A1.

Negative consequences of grand corruption in biodiversity loss

There are numerous negative consequences of grand corruption in biodiversity loss, in various sectors, including:

- wildlife trade
- forestry
- fishery
- mining

Grand corruption risks related to illegal wildlife trade have a number of negative consequences, such as:

- damage to the ecosystem, potential extinction of species, which can have spillover effects on water supply and food production on which people depend
- health risks, as legal measures for regulating legal trade in animals, plants and timber are avoided
- countries end up being deprived of valuable tax revenue and proceeds from the sale of licences

for various concessions (WWF and TRAFFIC 2015:5).

In the forestry sector, the existing evidence suggests a strong relationship between corruption, illegal logging and deforestation (Interpol 2016). For example, as shown in Figure 8, a better control of corruption is correlated with lower rates of deforestation. This finding should be taken with caution, however, considering that the correlation is based on only 17 observations.

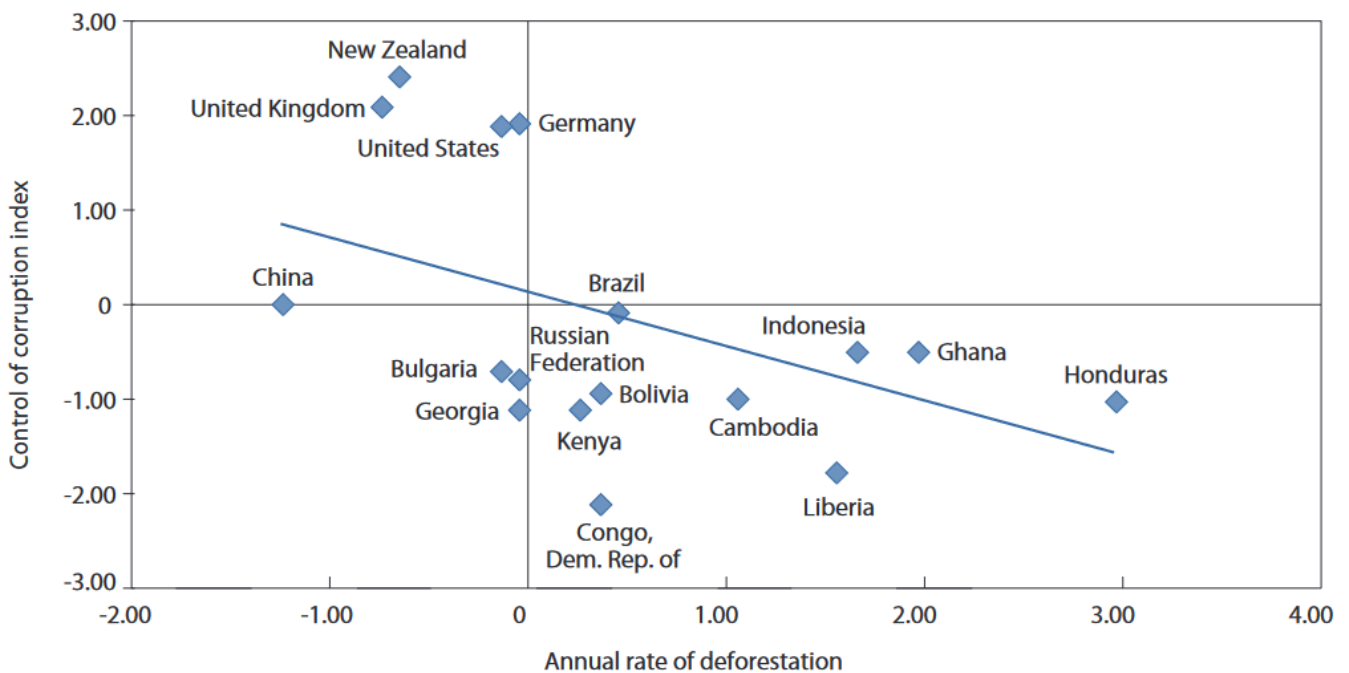
The economic consequences of corruption in the forestry sector are grave. For example, government revenues from forestry licensing are low compared to the losses from illegal logging. The data from Indonesia suggest that estimated losses due to illegal logging amount to US\$4 billion per year, while revenues coming from forest licences amount only to US\$300 million per year (Indrawati 2015;

Interpol 2016:6). According to the Interpol estimates (2016:7), the annual global cost of corruption in the forestry sector amounts to US\$29 billion.

Furthermore, corruption in the forestry sector may facilitate other types of crimes. Illicit networks established for the movement of timber have been penetrated by organised crime groups to smuggle drugs and weaponry (Interpol 2016:7).

Illegal logging can also have negative effects on sustainable development and endemic wildlife, as evidence from Madagascar suggests (EIA 2014). The forests from which rosewood has been taken are also home to the country’s most threatened species of primates. The animals were also affected by illegal loggers as they were poached for bushmeat (EIA 2014:3).

Figure 8. The relationship between corruption and deforestation. Source: Interpol 2016:5



Moreover, benefits of illegal rosewood trade tend to go to a narrow elite group at the expense of the wider population. As 70% of the population resides in rural areas, they depend on the environment for subsistence (EIA 2014:3). Illegal logging negatively affects these communities as it deprives them of access to food and clean water and puts areas under increased risk of flooding and mudslides (EIA 2014:3).

Corruption in fishery also has broad negative consequences. These include the weakening of law enforcement and negatively affecting the legitimacy of fisheries co-management (Yan and Graycar 2020b). Furthermore, it can also open a space for human trafficking and slavery (Yan and Graycar 2020b).

Corruption related to mining has serious negative consequences as, for example, illicit gold flows may cause environmental harm, such as mercury and cyanide pollution, and destruction of flora and fauna (Interpol 2021). It can also lead to human rights violations, stemming from conflict gold, for example. In South Sudan, gold mines have become conflict zones for competing armed groups, and this violence can result in crimes against non-violent miners such as murder, rape and the burning of homes (Hunter 2019; Hunter et al. 2021). Illicit groups also often resort to human trafficking, exploiting the labour force and using child labour (WHO 2013; Boko 2021; Interpol 2021). Corruption at the top levels of government directed at facilitating illicit gold flows can negatively affect the rule of law, as political elites may use illicit profits to nurture their clientelist networks and thus cement their political power (Hunter 2019; Blore and Hunter 2020).

Moreover, the unequal access of mining firms to lobbying for deep sea mining also carries broad potential risks, considering that this type of mining, according to some research, would have negative consequences on marine biodiversity (Alberts 2020).

Table 4: Summary of the key findings on grand corruption in biodiversity loss: key forms, manifestations, actors, and examples.

Key manifestations	Key Actors	Examples
<p>State capture in biodiversity loss thrives in contexts characterised by a weak rule of law and a strong influence of informal networks.</p>	<ul style="list-style-type: none"> - Political officeholders - Administrative and regulatory agencies - Multinational corporations - Professional enablers - Domestic firms 	<p>Examples include REDD+ projects whose design can come under influence of powerful business interests for narrowly distributed benefits (Thorpe and Ogle 2015).</p>
<p>Regulatory capture in relation to biodiversity loss may be triggered by revolving door practices.</p>		<p>The example of the business influence on International Seabed Authority in deep sea mining is an illustrative case in point (Greenpeace International 2020).</p>
<p>Institutionalised grand corruption in biodiversity typically manifests through networks spanning politics, business, administrative and oversight agencies to redirect the allocation of licences, transport permits and other benefits to politically connected businesses.</p>		<p>Examples of these practices can be found in the fishery and forestry sectors, and they typically thrive in weakly institutionalised contexts (Stop Illegal Fishing 2021).</p>
<p>Lobbying matters for biodiversity loss due to the risks of unequal access to lobbying in influencing decision makers and the negative effects of corporate donations in contexts with poor regulation of corporate political activity.</p>		<p>Examples include lobbying of mining companies based in the Global North for deep sea mining, and close ties between money and politics in Indonesia, facilitated through corporate donations (The Gecko Project and Mongabay 2018; FISHSEC 2020).</p>
<p>The transnational component of grand corruption in biodiversity loss manifests through state capture, institutionalised grand corruption and foreign bribery. It typically involves complex political-business networks, which are, depending on the context and the sector, facilitated by international businesses, professional enablers or criminal consortia.</p>		<p>Examples include rosewood trade from Madagascar and illicit gold flows from East and Central Africa (Anonymous 2017; Hunter et al. 2021).</p>

Grand corruption in climate finance

Climate finance refers to “local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change” (UNFCCC, no date b). This finance may be used for both mitigation and adaptation efforts. The former aims to curb global warming by investing in renewable energy, carbon markets and reforestation projects, while the latter may include large investments in infrastructure projects, such as irrigation systems or flood defences (Chêne 2014:2).

In 2019/20, global climate finance amounted to US\$632 billion, of which 49% came from private sources (see Figure 9) (Buchner et al. 2021).

Solar photovoltaic (PV) and onshore wind farms are the main recipients of renewable energy finance, while low-carbon transport is the fastest growing sector (Buchner et al. 2021:3).

In terms of the geographic distribution of climate finance, most resources went to East Asia and the Pacific, Western Europe, and the United States and Canada (Figure 10) (Buchner et al. 2021).

Figure 9. Global climate finance flows in 2019/20. Source: Buchner et al. 2021:1.

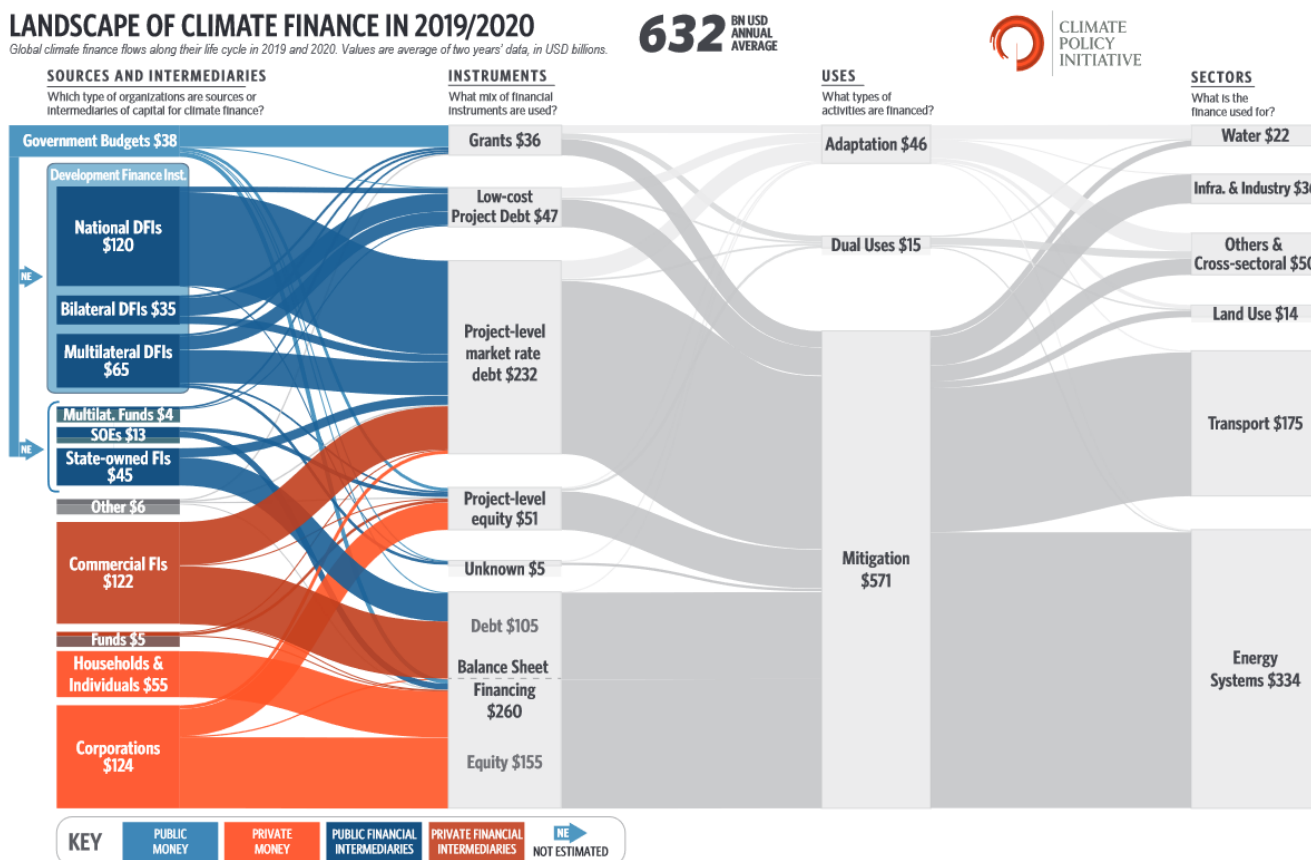
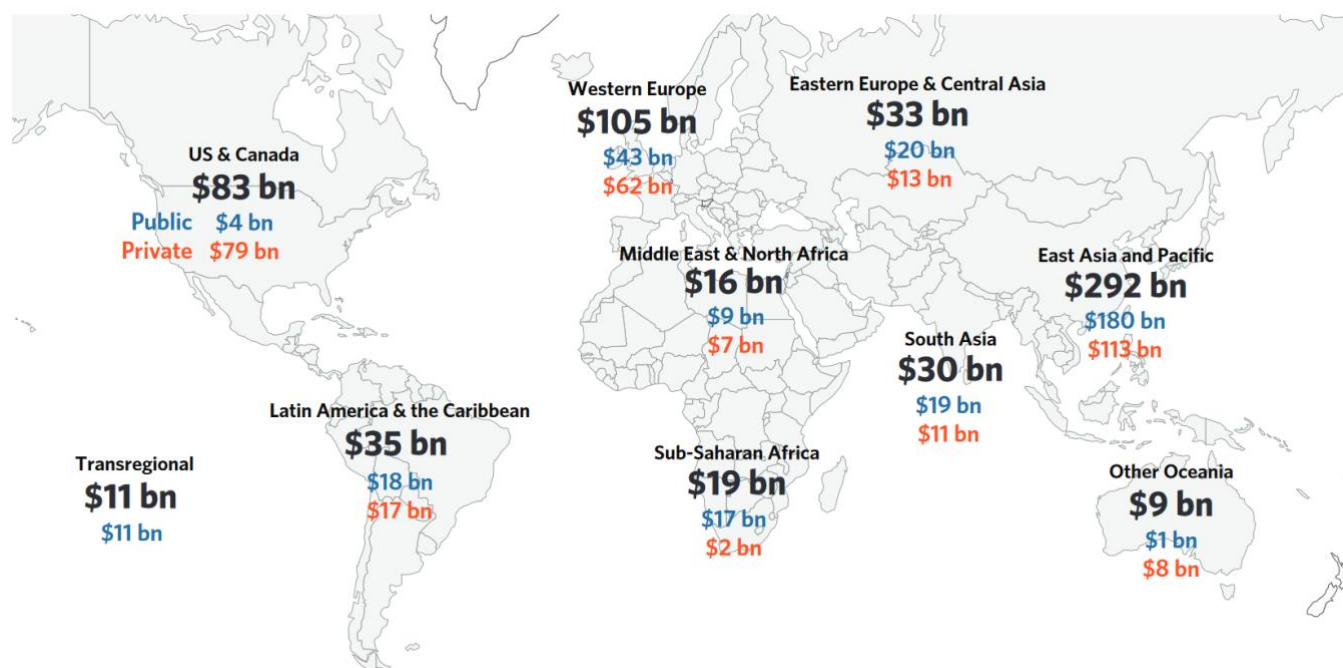


Figure 10. Recipients of climate finance, 2019/20 annual average. Source: Buchner et al. 2021:30.



Climate finance consists of huge money flows, which is attractive to corrupt actors. Additional characteristics inherent to climate finance may also exacerbate corruption risks, including unclear and changing regulations, improper monitoring, the field's highly technical nature, a spending imperative due to urgency, and others (Nest et al. 2020:4).

Climate related development finance (CRDF) to international development programmes amounted to US\$79.6 billion in 2019 (Nest and Mullard 2021). The fact that a lot of these funds are directed to public procurement and construction is enough to sound an alarm, as the literature suggests that these are particularly prone to corruption risks (Fazekas and Tóth 2016; Fazekas and King 2018; Dahlström et al. 2021; Nest and Mullard 2021).

Different factors may shape the specific types of grand corruption risks in climate finance, such as:

- the stage of the policy cycle
- the target sector
- contextual factors at the national level, such as the quality of institutions and corruption levels
- types of domestic stakeholders and institutions involved, e.g. the presence/ lack of integrity and accountability systems (Chêne 2014; Ardigó 2016)
- types of international donors involved
- the mechanisms of channelling climate finance (e.g. domestic, international, multilateral) (Ardigó 2016; Nest and Mullard 2021)
- donor proliferation – the presence of multiple sources of funding with often overlapping goals, as well as different standards and practices with regards to the governance of these funds, which can create administrative burdens on recipient countries and limit transparency and accountability (Ardigó 2016; Bartlett 2020).

The energy sector is particularly relevant for analysing corruption risks as it attracts a large share of CRDF and is relevant for emissions (Stokes 2020; Nest and Mullard 2021:17).

In general, studies on development aid (not limited to climate finance) provide evidence of their vulnerability to corruption. For example, a study of official development assistance (ODA) to Western Balkan countries has shown that, while donors have allocated more aid to countries that have a greater need due to their lower GDP, the aid was not allocated based on merit, which was proxied by control of corruption¹⁴ (Bartlett 2020). The findings suggest that financial aid may facilitate domestic practices of state capture and rent-seeking (Bartlett 2020).

Corruption in climate finance negatively affects efforts to curb climate change, and it harms donors due to the misuse of funds (Nest et al. 2020). This is particularly relevant considering that the largest recipients of climate related ODA have significant challenges with systemic corruption (Nest et al. 2020). For example, some estimates suggest that, of US\$13 billion of multilateral climate funds allocated yearly to the water sector, between 7%-15% is lost to corruption (GIZ 2019; Nest et al. 2020:1).

State capture in climate finance

One important factor which may facilitate state capture relates to the highly technical nature of climate adaptation and mitigation work, which makes this process more vulnerable to illicit capture by vested interests (Ardigó 2016).

A Transparency International (2021:13) study on corruption in forest climate finance suggests that the powerful position of some elites in forest management in Ghana raise significant corruption risks. Reportedly, political figures in REDD+ have managed to exert undue influence on policy making and project implementation (Transparency International's 2021:13).

Further, the evidence on Ghana's Mineral Development Fund demonstrates how local elite capture of the decision-making process on the allocation of resources from the fund, as well as the lack of accountability, led to the misappropriation of these funds (Dupuy 2017). Ghana has a policy requiring the national government to return a percentage of mineral revenues to local communities affected by mining (Dupuy 2017:72).

These revenues first go to the state managed fund and then get redistributed to local institutions. Chiefs – local traditional authorities – are key actors in receiving and spending these revenues. However, poor accountability mechanisms make these funds easy prey for local authorities (Dupuy 2017). Moreover, Dupuy (2017) points out that the misuse of these funds can further entrench local elites and undermine efforts to provide benefits for local communities affected by mining.

Institutionalised grand corruption in climate finance

Institutionalised grand corruption in climate finance may occur in capturing the allocation of these resources and rerouting them to politically

¹⁴ Control of corruption is one of the indicators used by the World Bank for their Worldwide Governance Indicators dataset, and it refers to the strength of public governance, by measuring the extent

to which public power is exercised for private gain (Bartlett 2020; The World Bank no date).

connected businesses or crony and nepotistic networks.

For example, corruption is identified as a key challenge in building climate adaptation infrastructure in Bangladesh, manifesting through the violation of public procurement laws, for example (Khan et al. 2020). Some studies suggest that contractors benefit from climate change related projects in various ways, including by using lower quality materials (which may lead to incomplete projects) or by selling the contract before or during the construction at a lower price. The latter practice seems to be widespread according to some research (Khan et al. 2020). Khan et al. (2020) note that corruption of this scale can only be conducted if there is a collusion between contractors and implementation and enforcement agencies.

The Bangladesh Climate Change Trust Fund (BCCTF), established in 2009 to help mitigate the effects of climate change, has also been linked to a number of governance issues (Masum and Khan 2020). A study by Transparency International Bangladesh (Masum and Khan 2020), which looks at seven BCCTF projects, finds evidence that all projects were approved based on political recommendations (Masum and Khan 2020). Moreover, allegations exist that a minister's personal assistant accepted 10% of project money as a bribe for three different projects (Masum and Khan 2020:9). Evidence exists that a former minister's aide directly influenced "selection, approval and contractor selection of the implementation agency" in several solar power projects, suggesting practices of institutionalised grand corruption (Masum and Khan 2020:9).

The execution of the project for cyclone resistant housing in Bangladesh has also allegedly been penetrated with corrupt practices. It was revealed

that some beneficiaries were relatives of political officeholders (Sharmin et al. 2017:31).

A recent Transparency International publication (2021) on corruption in forest climate finance provides an example from the DRC. A whistleblower from the Ministry of the Environment made allegations that the secretary general of the ministry diverted around US\$38 million of funding intended to REDD+ (Transparency International 2021a:6; Reyes et al. 2021).

An example from Indonesia suggests that the Ministry of Forestry used US\$600 million from the reforestation fund to finance politically favoured projects contrary to the fund's objectives, thus exemplifying institutionalised grand corruption (Transparency International 2021a:6; Reyes et al. 2021.). Further, another telling example of corruption in climate finance funds in Indonesia relates to the administration of the Village Fund. There were 54 recorded corruption cases by 2020, including non-reporting of funds used and failure to implement activities, which seem to be facilitated by various factors, such as politicisation of the funds, unclear accountability mechanisms, improper public financial management procedures, and others (Transparency International 2021a:16; Reyes et al. 2021).

A recent study in Bangladesh, focusing on the role of non-state actors in climate finance, provides evidence of the politically motivated allocation of funds, conflict of interest, unclear criteria for disbursing funds and poor accountability (Kabir et al. 2021).

Lobbying and other grey areas in climate finance

As mentioned in previous sections, unequal access to lobbying poses serious challenges in

decarbonisation policies, transition to renewables and mining of critical minerals. These risks are evident in climate finance as well. For example, some reports suggest that approaches to address climate finance at the United Nations Climate Change Conference (COP21) were largely influenced by fossil fuel lobby groups (Sabido 2015; Corporate Europe Observatory 2015).

Recently, the fossil fuel industry exerted pressure on the allocation of COVID-19 relief funding, securing concessions for environmentally damaging energy schemes. For example, Italy gave a €365 million state backed loan to petrochemical firm Maire Tecnimont as part of its recovery scheme (Friends of the Earth Europe 2020; Transparency International, 2021c).

Transnational component of grand corruption in climate finance

Considering the role of international finance, including private sources, one potential challenge refers to the concept of “concessions for aid” (Ardigó 2016:7). Namely, donors may require certain concessions in exchange for financing, such as tax breaks or favourable legislation, which increase the risks of state capture with a transnational component (OECD and Climate Policy Initiative 2015; Ardigó 2016).

Further, climate finance is a prominent segment of blended market finance. The role of the private sector in blended finance has been slowly increasing over the last five years (Buchner et al. 2021). An important challenge of blended finance is the large number of participants and complex

financing arrangements which make monitoring much harder (OECD 2018; Jenkins 2022). An additional challenge is the different priorities of donors and recipient countries, which may result in projects favouring narrow interests of western donors and firms (OECD 2021; Jenkins 2022). The corruption forms that may occur in this process are state capture and regulatory capture.

REDD+ projects are also vulnerable to corruption, as discussed in the section on biodiversity loss. An example from Indonesia suggests that a project to conserve forests suffered from illegal logging, artisanal mining and palm oil tree planting as private companies paid bribes to local governments and the police to conduct these illicit activities (Nest et al. 2020:7). While the budget for this climate finance project (partly financed by Danish and German governments) did not suffer directly, the bribery had a consequence on emissions as corruption reduced predicted carbon capture by around 15% (Nest et al. 2020:7). This case suggests that, while climate finance budgets may not directly become a prey of corrupt actors, they may partly go to waste due to corruption in other aspects relevant to the project (Nest et al. 2020:7).

Transparency International (2022) recently published a report on the governance frameworks of five multilateral trust funds (MTFs),¹⁵ which are a common method of managing funds for climate action. One of the case studies notes that, in 2019, allegations were made that millions of dollars have been misappropriated from a project in Russia funded by GEF and implemented by UNDP (Transparency International 2022:22).

¹⁵ These funds enable donors to pool funding to finance large programmes via single channels. Transparency International’s (2022) report focuses on analysing the governance frameworks of five of these funds: the Adaptation Fund (AF), the Climate

Investment Funds (CIF), the Global Environment Facility (GEF), the Green Climate Fund (GCF) and the Central Africa Forest Initiative (CAFI).

The allegations referred to a project worth US\$7.8 million intended to adapt Russian energy efficiency standards to align them with the EU to reduce GHG emissions (Transparency International 2022:22). Seven different whistleblowers came with allegations of corruption during the project. One allegation referred to poor public procurement practices of the UNDP's Moscow office, as, allegedly, Russian officials in charge of procurement directed contracts to their relatives and associates. After the investigation conducted by UNDP, it was revealed that there were irregularities, such as private companies sitting on a committee approving contracts while also bidding for these contracts, but they dismissed allegations of procurement fraud (Transparency International 2022:22).

Further, in 2019, the European Anti-Fraud Office (OLAF) has discovered that a European Research Consortium of enterprises from France, Ireland, Romania and Spain tried to defraud the European Commission's Research Executive Agency of more than €400,000 in funds (Transparency International, no date d; In Cyprus 2020). Instead of working on a forest fire detection project, the money was siphoned into a casino and hotel project in Cyprus (Transparency International, no date d; In Cyprus 2020).

Summary: Grand corruption and climate finance

Existing evidence of grand corruption in climate finance suggests that institutionalised grand corruption and the transnational component of grand corruption are the most prominent forms. This is likely related to the fact that these funds can

be redirected to politically connected actors in weakly institutionalised contexts and that, due to the involvement of international and multilateral organisations, they may have a transnational character. A detailed summary is provided in Table A1.

Negative consequences of grand corruption in climate finance

Nest et al. (2020:5) point out two main negative effects of corruption in climate finance on climate change interventions:

- mitigation measures do not lead to the reduction of carbon emissions as planned, or can even increase them (Transparency International 2021a)
- adaptation measures end up being suboptimal¹⁶

Specifically, different forms of corruption can lead to a weakening of the quality of environmental regulations, reduce the effectiveness of clean energy programmes by rerouting the funds into suboptimal projects, and others (Nest et al. 2020).

¹⁶ Refer to previous sections for specific examples of negative effects of grand corruption, specifically the sections on decarbonisation, renewables and biodiversity loss.

Table 5: Summary of the key findings on grand corruption in climate finance: key forms, manifestations, actors, and examples.

Key manifestations	Key Actors	Examples
<p>State capture in relation to climate finance may be facilitated by the highly technical nature of climate adaptation and mitigation work.</p>	<ul style="list-style-type: none"> - Political elites (top-level political officeholders, local political elites) - Administrative and oversight agencies 	<p>Some evidence of state capture can be found in forest climate finance and mineral funds in Ghana where connected political elites can take advantage of weak accountability mechanisms to achieve narrow benefits at the expense of local communities (Dupuy 2017).</p>
<p>Institutionalised grand corruption in climate finance typically occurs by redirecting climate funds to politically connected businesses, by, for example, bending the rules of good public procurement.</p>	<ul style="list-style-type: none"> - National climate funds - Local climate funds 	<p>These practices have been observed in climate adaptation infrastructure in Bangladesh and forest climate finance in the DRC (Khan et al. 2020; Transparency International 2021a).</p>
<p>Lobbying in climate finance may occur with fossil fuel lobby groups trying to influence the design of climate finance programmes.</p>		<p>For example, evidence suggest that approaches to address climate finance at the United Nations Climate Change Conference (COP21) were largely influenced by fossil fuel lobby groups (Sabido 2015; Corporate Europe Observatory 2015).</p>
<p>The transnational component of grand corruption in climate finance may incorporate practices such as unequal access to lobbying and misappropriation of foreign funds for climate action.</p>		<p>For example, a Transparency International (2022:22) report on multilateral trust funds, a common method of managing funds for climate action, points out some allegations of fund misappropriation from a project in Russia, aimed to adapt Russian energy efficiency standards.</p>

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The U4 anti-corruption helpdesk is a free research service exclusively for staff from U4 partner agencies. This service is a collaboration between U4 and Transparency International (TI) in Berlin, Germany. Researchers at TI run the helpdesk.

The U4 Anti-Corruption Resource Centre shares research and evidence to help international development actors get sustainable results. The centre is part of Chr. Michelsen Institute (CMI) in Bergen, Norway – a research institute on global development and human rights.

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