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Good governance and the just transition: Implications for renewable energy companies

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About this report

There is broad agreement that ensuring a just energy transition is key for achieving the trust and support from citizens needed to deliver on the COP28 goal of tripling renewable energy capacity by 2030. This paper discusses the concept of a just transition, with a particular focus on the importance of achieving a transition that benefits both local communities and society at large. It examines the governance and corruption challenges that could jeopardise this goal and discusses how industry associations and companies in the renewable energy sector could step up their efforts to address these challenges to realise the ambition of a just transition. The paper draws on lessons from tackling governance and corruption risks in the extractive sector and sets out proposals on how to accelerate collective action in the renewable energy sector.

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Table of contents

Table of figures

Foreword

Achieving a just energy transition is the defining technological and societal challenge for our generation. It is vital to mitigating climate change and to building a world of shared prosperity and opportunity. The stakes are hard to overestimate.

By innovating, scaling up and reducing costs, renewable energy companies are contributing greatly to speeding up the transition. One would think that the fast pace of developments would result in an all-hands-on-deck approach. Yet one reform community has been conspicuously absent, beyond general statements: the global expert community which addresses corruption through the development of solid governance systems.

As a result, companies in the renewables space have been deprived of the efficiency-boosting power that a reduction in corruption risks brings.

This long-neglected void is thankfully starting to be filled. A major contribution is this report by governance leaders Maja de Vibe and Mark Robinson, who interviewed leading industry representatives and reviewed available evidence to determine the kinds of corruption risks that the renewables sector faces.

The result, considering the exceptional dynamism and complexity, is somewhat surprising: a new constellation of all-too-familiar corruption risks. Given the ambitious energy transition plans of numerous countries, and the rapidly increasing levels of investment in the renewable energy sector, the potential impact of these risks could be devastating for the sector and the communities being served by these projects.

Maja and Mark's observations are exceptionally valuable for both the renewables sector and anti-corruption practitioners like the Basel Institute. Through our support to environmental agencies and state-owned enterprises, and our decades-long efforts to promote multi-stakeholder anti-corruption initiatives with the private sector, we already have the right tools in our toolbox. Tried-and-tested approaches like Collective Action, corruption risk assessments and mitigation, internal controls strengthening, and behaviour change interventions will all be part of the solution. The key is learning to customise these existing tools and use them in precisely the combination and application that addresses the needs of the sector.

We are grateful to Maja and Mark for demystifying corruption in the renewables space. Achieving a just energy transition will need stakeholders from across the industry, civil society, government and the anti-corruption community to work in a sustained and collaborative way to help shape the path ahead.

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Executive summary

Governments at COP28 announced a shared commitment to a tripling of renewable energy capacity by 2030. Reaching this goal is dependent not only on a significant uplift in investments, but also on shoring up necessary buy-in from local communities and society at large. Ensuring a just transition where the burden and benefits of the energy transition are evenly distributed and where communities most directly impacted are not left behind is therefore going to be essential. But governance risks in the form of inadequate community engagement, corruption and tax evasion could undermine this goal.

This paper addresses two questions: how significant are these risks for the renewable energy sector and what can be done by companies and other actors to address these?

Identifying governance and corruption risks

The renewable energy sector is not immune to governance and corruption risks. The results of a survey conducted for this paper indicate that companies operating in solar, wind, hydropower and green hydrogen currently report a low incidence of risk. However, most recognise these are likely to grow significantly as the sector expands, particularly in weaker governance environments. The biggest areas of risk identified by companies in the survey are fourfold:

- Lack of transparency in the beneficial ownership of partners, contractors and suppliers where public officials often have a stake.
- Opaque licensing and contract procedures, irregular procedures for obtaining land concessions and conflicts of interest on the part of public officials.
- Problems of inadequate community consultation and engagement along with risks around fraud and misappropriation of benefit funds.
- Misuse of subsidies and unethical tax practices.

Drivers of governance and corruption risks

Even though such risks are currently perceived to be low, several features of the renewable energy sector make it especially prone to such risks going forward:

- The sector is undergoing a growth boom with opportunities for excess profits and rents.
- The sector remains relatively nascent, and the regulatory environment is still under development.
- The sector is characterised by a highly fragmented market, with many small companies operating with short time horizons.

- There is an absence of common reporting standards and disclosure requirements on corruption and governance risks and low engagement from civil society.

While the companies surveyed are aware of the risks facing the sector, there is a significant gap in terms of concrete measures and a lack of action by the sector as a whole. The situation is not dissimilar to that facing the extractive sector two decades ago, with the resource curse afflicting many countries endowed with natural resources.

While the renewables sector is different both in terms of its structure and the degree of intervention by state actors and political elites, valuable lessons can be derived from efforts to tackle corruption risks and poor governance in the extractive sector.

Learning lessons from the extractive sector

Problems of governance and corruption have plagued the extractive sector for decades, manifest in the large-scale diversion of public resources for private ends. The creation of the Extractive Industries Transparency Initiative (EITI) in 2003 was an effort to tackle problems of weak governance and pervasive corruption by injecting greater transparency in oil, gas and mining and improving the accountability of governments and companies. Lessons from EITI's experience that are relevant to the renewables sector include:

- A shared agenda and mission underpinned by common principles endorsed by governments, companies and civil society.
- A platform for multi-stakeholder action to provide oversight on EITI reporting and to serve as an accountability mechanism for country implementation.
- A common standard setting out disclosure requirements for reporting by countries and companies.

There are valuable practical examples that can be drawn from the EITI that could be applied to the renewable energy sector to increase transparency around licences, permits and contracts; tax disclosures and payments to governments; beneficial owners of companies; and disclosures on community consultation and benefit sharing.

Implications for collective action

Given the likelihood that governance and corruption risks will increase in the renewable energy sector, there is a need for companies to address these in a more robust way.

It would be valuable for the sector to develop a shared agenda to guide collective action, grounded in common standards on community benefits, anti-corruption and tax transparency. This can build on elements of existing standards in the sector as well as the experience of the EITI. While

governance and corruption risks receive partial recognition in some of the existing standards, the level of granularity is limited and there are no established verification procedures to assess performance.

There is also scope for the renewables sector to adopt an industry-wide multi-stakeholder platform similar to that of EITI, tailored to the characteristics of the sector, building on existing industry associations and policy platforms.

Experience shows that companies are more likely to adopt improved practices when there are clear incentives for them to do so. Governments and multilateral institutions can play a powerful role in this regard, through legislation and incentives. Investors can also influence companies to develop stronger policies and commitments.

Finally, there are emerging practices from leading companies in the sector, which can be shared more widely across industry associations as examples of best practice.

Way forward

There is a desire among the renewable energy companies interviewed not to repeat the mistakes of the past that permeated the extractive sector. But recognition of governance and corruption risks remains insufficient and collective action relatively limited. Donors could play a role by investing in a common platform and building capacity and awareness. But for collective action to succeed, industry associations, companies, investors, regulators and civil society need to prioritise working together on these issues, and not rely on the assumption that “green is clean”.

1 Introduction

This paper focuses on governance and corruption challenges in the renewable energy sector and how these could undermine the objective of a just transition. The paper draws on lessons from the experience of tackling governance and corruption risks in the extractive sector and sets out proposals for how to accelerate collective action in the renewable energy sector to address these challenges.

1.1 Trends in renewable energy

The renewable energy sector has been growing rapidly and investments in the sector have consistently outstripped fossil fuel investments since 2016 (IEA, 2023a). In 2022 it was estimated that renewables and clean energy sources accounted for over 30% of global electricity production. Of this 12% came from wind and solar, while hydropower, nuclear and biofuels made up the balance.

Wind and solar are continuing to grow quickly, with their combined contribution expected to reach 41% by 2030. In contrast, growth in hydropower has stalled with a declining share of the total (IEA, 2023c; Wiatros-Motyka, 2023). As a share of total energy requirements, renewables need to rise to 70% by 2050 to remain within a 1.5°C net zero target. Achieving this goal will require an estimated investment of USD 110 trillion in the sector and an increase in average annual levels of financing from USD 1 trillion today to USD 3.5 trillion (Energy Transitions Commission, 2023a).

Growth in renewable energy capacity is not evenly spread across the globe. The bulk of investment is in OECD countries and the BRICS. The largest producer of solar power in 2022 was China, followed by the US, Japan and India. China also led the world in wind generation, followed by the US, Germany and Brazil. The three largest hydropower producers were China, Brazil and Canada.

At the other end of the spectrum, developing countries currently receive much lower levels of investment in renewables and consequently have a very small share of installed capacity (IEA, 2024). IRENA reports that Africa accounted for less than 2% of total investment in the sector over the period 2020–2024 (IRENA, 2024b). The least developed countries and small island developing states have experienced some of the lowest investment activity in renewables (Lee and Zhao, 2024).

Countries at COP28 in Dubai committed to a tripling of renewable capacity by 2030. This target is feasible if growth rates continue to accelerate, especially for solar and wind. But the industry faces challenges which could hold back the achievement of this ambitious target. Growth in the wind and solar industry after 2000 was negatively affected by a steep rise in commodity prices, which impacted on manufacturing costs for wind turbines and solar photovoltaic (PV) modules. The Russian invasion of Ukraine led to a global energy crisis with a sharp increase in the costs of electricity, raw materials and transportation with growing uncertainties in global supply chains (IEA, 2023c).

These problems continue to permeate the sector, creating uncertainty and volatility in investment trends (REN21, 2023). Furthermore, a survey of members of the Global Wind Energy Council pointed to concerns related to permitting timelines, land use and land

rights, and grid access for wind projects (Lee and Zhao, 2024). Similarly, the growth of solar power has also suffered from inflationary pressures, increased shipping costs and supply chain disruptions (Solar Power Europe, 2023, p. 11). The challenges constraining growth in hydropower (which has fallen in recent years) take the form of lengthy inception periods, project delays, capital availability and local opposition (International Hydropower Association, 2023).

All three sectors report, in different ways, challenges related to ensuring continued public support for growth in renewables and the green transition. There has been a growing focus on the need to ensure that the green transition is a just transition which leaves no one behind. The concept of a just and inclusive transition has become an established framework in the sector – with an increasing number of companies adopting just transition strategies.

The just transition agenda has to date focused mainly on green job creation and the need to support communities through the transition. Less attention has been paid to the governance challenges that could jeopardise this goal, such as predatory economic behaviour, corruption and tax evasion.

1.2 Approach and sources

The focus in this paper is primarily on the experiences and perspectives of companies in the renewable energy sector. To this end, we draw on fresh empirical evidence from a survey of ten leading European renewable energy companies, interviews with compliance experts from those companies, and a review of secondary literature and media reports.

While the sample of companies is small, they are leading companies in the sector. They operate primarily in solar and wind, followed by hydropower and green hydrogen, mostly based in Western Europe and North America, followed by Eastern Europe, South America and East Asia, and a more limited presence in South Asia, Africa and the Middle East.

2 Just transition – exploring the concept

The required growth in installed renewable energy capacity globally will result in significant impact on communities and land use. For instance, meeting 2040 renewable energy targets in the key European markets of France, Germany and Italy would require “an additional 23,000 to 35,000 square kilometres of land—an area equivalent to the size of Belgium” (Bampinioti et al., 2023). In some parts of the world where land is scarce this is likely to be challenging.

There are signs of a weakened level of public support exemplified by case studies in some jurisdictions (Hammami, Chtourou and Triki, 2016; Lindvall,

2023), highlighting the importance of ensuring broad local and national level support going forward. One recent study from six European countries finds that public acceptance of wind energy projects is fostered by a transparent, open and fair planning process and active participation of local communities and citizens in benefits arising from such projects (Maleki-Dizaji et al., 2020).

To secure continued public support, increased efforts will be needed to ensure that the burden and benefits of the transition are perceived to be evenly distributed, and that the most impacted groups are not left behind. In short, the achievement of a just transition is seen as increasingly important to deliver on net zero goals.

The concept of a just transition was born out of the labour movement in the US in the 1980s and 1990s, with a focus initially on handling the impacts of job losses in sectors such as coal mining (ITUC, 2017; Lee and Baumgartner, 2022). Since then, a wide body of literature has developed on the topic with no commonly agreed definition (Wang and Lo, 2021). The UN Global Compact defines it as follows: *"A just transition works to ensure that the transition to net-zero emissions and climate resilience is orderly, inclusive and just, creates decent work opportunities and leaves no one behind."* (UN Global Compact, 2023).

A high-level review has been conducted of the frameworks used by select government, civil society and private-sector institutions who have played a key role in shaping the concept of a just transition (see Table 1).

The analysis shows that while there are differences, all the approaches include a strong focus on mitigating negative impacts and creating opportunities for workers and communities, in particular those most vulnerable to the changes resulting from climate change and the transition to a low-carbon economy. Most also place an emphasis on the importance of social dialogue and inclusive and participatory approaches.

	Key topics of focus							
Institution	Workers' rights, decent work, job losses, measures skills training	Mitigate impacts on communities (climate change, transition), community rights	Social dialogue involvement (incl workers/ unions) fair transparent processes	Human rights (due diligence) and social protection	Innovation, R&D, and shared technology	Local value creation, sustainable develop., poverty eradication access	Gender	Energy access, energy poverty
Business and human rights resources centre (Business & Human Rights Resource Centre, 2024)	×	×	×	×				
ITUC —Just Transition Centre (ITUC, 2017)	×	×	×	×	×			
IRENA Just transition framework (IRENA, 2024)	×					×	×	×
EU —The Just Transition Mechanism (The European Commission, no date)	×	×			×			×
UNFCCC —United Arab Emerites Just Transition work programme (UNFCCC, 2023)	×		×			×		
ILO —Guidelines for a just transition (International Labour Organisation, 2015)	×		×	×			×	
B4IG —Just Transition Indicators (B4IG, 2023)	×		×			×		
B Team and Just Transition Centre (The B Team, 2018)	×	×	×	×		×	×	
World Benchmarking Alliance — 2021 Just Transition Assessment (World Benchmarking Alliance, 2021)	×		×	×				
UN Global Compact (UN Global Compact, 2023)	×		×	×		×		

Table 1: High-level analysis of just transition frameworks. [1]

1 The table reflects what appear to be the main publications issued by the relevant institutions, and may therefore not give an exhaustive account of their approach to the topic (International Labour Organization, 2016; ITUC, 2017; The B Team, 2018; World Benchmarking Alliance, 2021; B4IG, 2023; UNFCCC, 2023; UN Global Compact, 2023; Business & Human Rights Resource Centre, 2024; IRENA, 2024a; The European Commission, no date).

A common theme of these frameworks is the notion that the transition to a low-carbon economy must benefit society as a whole. This is directly relevant for the value that will be created with the projected explosive growth in renewables in the coming decades, with investments running to over USD 100 trillion by 2050 (Energy Transitions Commission, 2023a).

The goal of ensuring that the value created benefits local communities and society more broadly in a fair and equitable way is not, however, straightforward to achieve. There are several factors at play that could undermine this goal, which need to be given closer attention. This includes governance risks such as insufficient attention to community engagement and benefits, resulting in the interests of impacted communities not being addressed.

Other risks include corruption affecting the fairness and transparency of licensing and permitting processes, enabling patterns of predatory rent-seeking behaviour. There are also risks related to unfair tax practices and tax evasion undermining the benefits accrued to society as a whole.

3 Factors that undermine a just transition

3.1 The renewable energy sector

The analysis presented in this paper relates to three specific sub-sectors, namely hydropower, wind and solar. There are obvious differences between the three technologies in terms of capital intensity and how complex the projects are to realise from a planning and construction perspective.

There are significant variations in terms of the maturity of regulatory frameworks that guide the activities in these sub-sectors. In more mature markets most processes are clearly defined and transparently documented, less so in markets where the sector is still evolving. The upstream shaping of regulatory frameworks has a significant impact on opportunities for value creation and can therefore be associated with corruption or corporate capture and rent-seeking risks, as discussed further below.

Irrespective of the specifics of regulatory frameworks, the project lifecycle contains the same key phases for all three sub-sectors, namely a development phase, followed by construction and finally an operational phase (illustrated in Figure 1 with the example of an onshore wind project). The key activities shown in the figure are similar across the three sub-sectors but are more extensive and take longer to complete for the most complex technology (hydropower) and less so for wind and solar.

Figure 1: Onshore wind development process. Source: Wind Exchange, 2024

The *development phase* of a project includes prospecting, land control, permitting, initial contact with potentially affected stakeholders and preliminary engineering.

The *construction phase* of projects includes activities such as engineering, procurement and construction, with time and complexity varying by technology. This is the phase with the greatest impact on local stakeholders. Impacts range from noise pollution and damage to local roads, through to more extensive impacts in the form of relocation of housing or livelihood activities.

Following the finalisation of the construction phase, the project enters the value-generating *operational phase*. This is generally a more stable phase, with less complex activities and interactions with stakeholders.

For all three sub-sectors there is considerable variation in terms of how fragmented the execution of the project lifecycle is in practice. For larger hydropower projects, ownership throughout the different phases is often more concentrated, and typically held by large established companies (Coherent Market Insights, 2024).

The situation is different for the European wind market, which is relatively fragmented (Mordor Intelligence, 2023b), and even more so the European solar market, which is highly fragmented (Mordor Intelligence, 2023a). In these sectors it is common for different companies to own and manage different stages of the project lifecycle. Smaller developers will often be responsible for the initial development phase, before selling to larger companies who take responsibility for the construction phase and who may in turn sell the project on to a new owner.

3.2 Governance and corruption risks in the renewables sector

Existing research

There is a small but expanding literature on governance and corruption risks in the renewable energy sector. Until recently it has been assumed that the extractive sector has been more prone to such risks as it has dominated energy investments (G20 Anti-Corruption Working Group, 2022). And yet a common perception among advocates of clean energy that "green is clean" is being questioned as the evidence accumulates of risks related to its expansion.

There is a growing recognition that corruption will inevitably deepen as the sector attracts an increasing volume of capital investment as this creates fresh opportunities for rent seeking and corruption (Rimšaitė, 2019; Rahman, 2020; Sovacool, 2021; Williams, 2022; Trapnell and Zinnbauer, 2023; Ceballos Oviedo, Sovacool and Mullard, 2024). This is reflected in growing media coverage of corruption cases and legal actions to tackle illegal practices in the sector.

Governance and corruption risks in the renewable energy sector assume varied forms. One recent review divides the risks into three categories: institutional and regulatory gaps (rules and regulatory frameworks, licensing and auctions, subsidy programmes and contract awards); inadequate community engagement (land acquisition, consultation processes); and project implementation and operational risks (political favouritism, business scams and preferential treatment by public officials) (Trapnell and Zinnbauer, 2023, pp. 5–7). Others have developed more elaborate frameworks to analyse the problem of corruption in the sector and potential remedies (Lu et al., 2019).

As most of the investment in the renewables sector has taken place in G20 countries, much of the media reporting of corruption cases draws on examples from Europe and the United States. The expectation is that as investment moves into less well-regulated environments the impact of governance and institutional weaknesses that give rise to corruption in the sector will be amplified (Sovacool, 2021).

Survey results on governance risks in the sector

In the survey conducted for this paper, most of the companies report a low incidence of corruption risk in their current operations, with half stating that they have not encountered corruption in their operations to date. However all expect corruption risk to increase significantly in the next five years.

In terms of risks they encounter, three quarters report that the biggest area of risk they face is lack of transparency in beneficial ownership of partners, contractors and suppliers, with reference to hidden interests of public officials. Other areas of significant risk are reported to be opaque licensing and contract procedures, irregular or non-transparent procedures for obtaining land concessions, and conflicts of interest related to the role of public officials.[2] The survey responses indicated that risks related to facilitation payments or bribes for licences or permitting, and irregular practices to secure the support of local communities, were considered less common. Only one company reported irregular practices associated with grid connections.

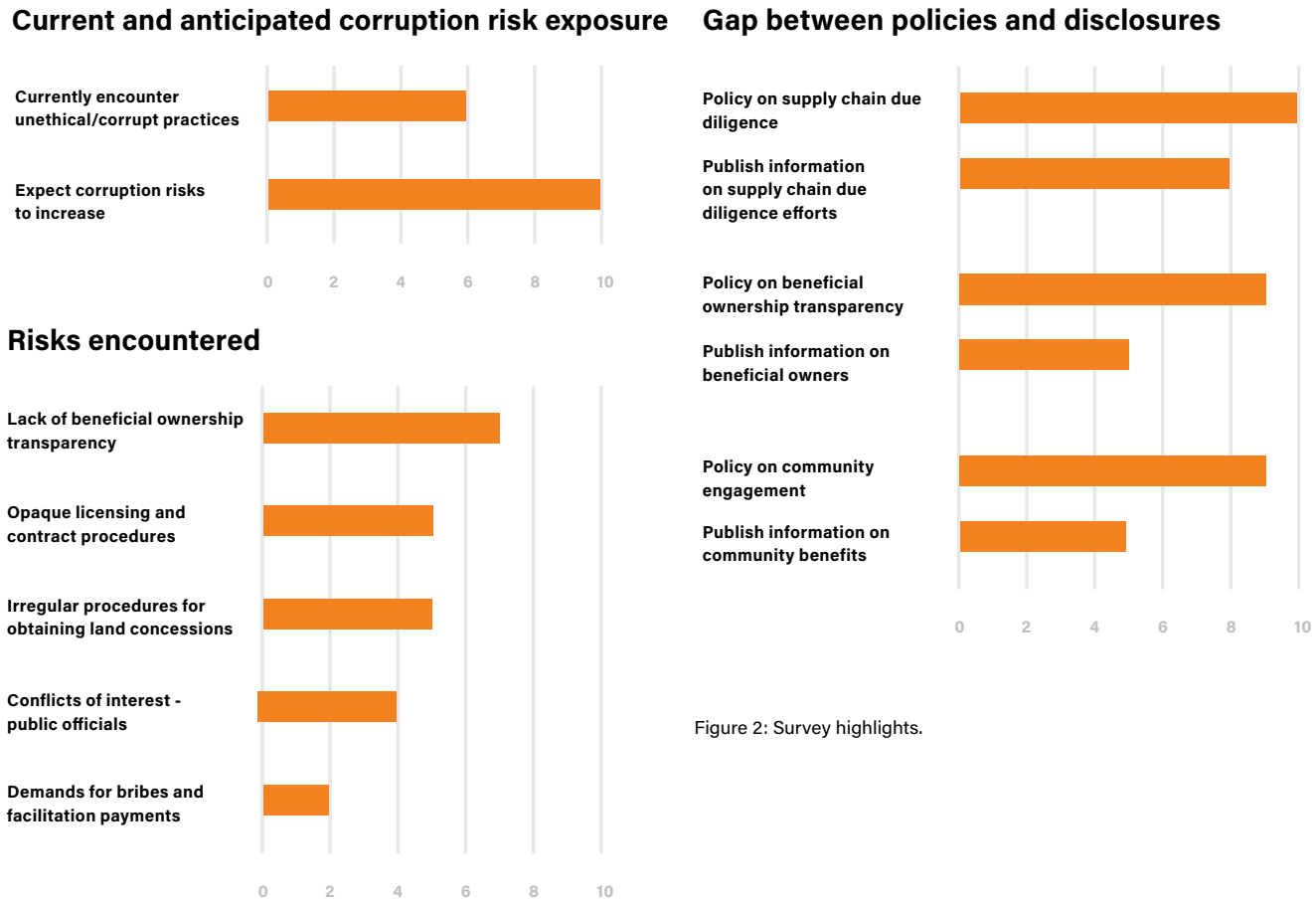

Figure 2: Survey highlights.

The next section unpacks these risks with reference to different aspects of the project cycle in the renewables sector, drawing on the interviews with the company representatives and relevant secondary literature.

2 These risks and their potential impacts were summarised by one respondent as follows: "Inadequate handling of conflicts of interests, bribery and fraud risks in permitting and other development processes, ultimately resulting in corporate liability, penalties and reputational damage." Also see (Maslen, 2023) for a fuller analysis of these risks.

3.3 Risks related to community engagement and shared benefits

One of the key priorities from the start of any project is engagement with local communities and other potentially affected local stakeholders. The consent of impacted stakeholders is an important condition for successful project development, both from a formal regulatory perspective and in terms of practical considerations.

Figure 3: Overview of key areas of governance risks in renewable energy development.

This includes those with specific rights as users or owners of the affected land area, Indigenous Peoples and other rights holders. The engagement with stakeholders typically involves both government authorities and the developer of the project.

The formal consultation process is set by the relevant authorities at national and local level. In addition, according to best practice and increasingly legal obligations, companies have an independent responsibility to engage with impacted stakeholders and address their concerns.[3] This process of consultation with affected local communities and mitigation of negative impacts is prone to risk.

Case example 1: Access to land

Securing access to land is cited as a common obstacle facing developers across different geographies, stemming from inadequate community consultation and/or opaque land aggregation processes. This can result in several problems. Case interview A gave the example of a wind power project in Asia in which the developer encountered problems of roadblocks which prevented access to a wind project for routine maintenance of the turbines as the local strongman insisted on facilitation payments to guarantee entry to the site.

The company realised that the early phase developer had solved access in this way, creating a difficult precedent. Earlier investment in a more thorough process of community consultation during the development and construction phase may have prevented such problems from arising during operations.

3 An example is the OECD Guidelines for multinational enterprises with requirements for how companies should engage with and respond to impacted stakeholders (Guidelines for multinational enterprises - OECD, no date).

A similar problem arose in a wind power project Kenya where Indigenous communities claimed their lands had been acquired without Free, Prior and Informed Consent (FPIC), leading to protests and a legal case over forced relocation and inadequate compensation. This led to the recognition on the side of the company that the best approach would be to have a long-term perspective on community engagement and benefits, framed by a just transition perspective, over the 30-year expected project lifespan to ensure community buy-in from the outset. This would require collaboration between the different companies involved throughout the project, which can be hard to achieve in practice.

Despite the formal commitments on the part of authorities and companies to ensure meaningful community engagement, there has been growing concern in recent years that community interests are not adequately protected, as shown in the Renewable Energy & Human Rights Benchmark (Business & Human Rights Resource Centre, 2023). There is an emerging body of evidence that shows that during project development, communities are often not given accurate information about the intended intervention, or they are promised benefits that later may not materialise (van Wijk et al., 2021; Lindvall, 2023).

Numerous examples have been documented in recent research of insufficient consultation processes, manipulation through false information sharing, attempts at irregularly influencing of community leaders and insufficient mitigation of the negative impacts of the project.

This includes concerns related to a disproportionately negative impact on Indigenous communities and traditional groups, where customary and protected land use practices are not sufficiently safeguarded (Azzopardi, 2023; Business & Human Rights Resource Centre, 2023; Ceballos Oviedo, Sovacool and Mullard, 2024; IWGIA, 2024). This was a problem that arose in the Lake Turkana Wind Power project when Indigenous communities obtained a legal victory over land allocation which was claimed to have resulted in forced relocation and inadequate compensation (IWGIA, 2024).

A further example is from La Guajira in Colombia where the Wayuu Indigenous People objected to wind farm development on the grounds of inadequate consultation and lack of clarity over benefits for local communities (González, 2023; Vega-Araújo et al., 2024). Another example is the 2021 Norwegian Supreme Court decision that the licences awarded for the Fosen wind development were in violation of international human rights (Supreme Court of Norway, 2021).

There are strong parallels with experience in the mining sector where, despite progress on strengthening community consultation procedures, considerable risks remain, including in situations where communities face disruptions in transitions from fossil-fuel production to clean energy sources (EITI, 2023d).

The interaction with communities and impacted local stakeholders is a long-term relationship that lasts for the entire period of operation of the asset. It is increasingly common practice for companies to put in place a community benefit scheme, with growing evidence from a range of countries (Kerr, Johnson and Weir, 2017; IRENA, 2021). This practice is not, however, without its challenges. There are concerns that these schemes are often tokenistic in nature, not necessarily addressing the needs of the community, and could in the worst case be considered a form of bribery (Walker, Russel and Kurz, 2015; Macdonald, Glass and Creamer, 2017). In recent years there has been growing demand for benefit schemes to be more substantial in content and better aligned with local interests – "to go beyond mere consultation and encourage community co-design of benefit-sharing arrangements" (Toledano et al., 2023).

Another set of challenges relate to the risk of fraud and misappropriation of benefit funds. There have been examples of benefit schemes being captured by local leaders to the detriment of the wider community. This can take the form of conflicts of interest where leaders ensure that benefits are directed towards activities that benefit them. More egregious examples include fraudulent procurement, benefiting friends and family, or outright theft (see case example 2 below).

Figure 4: Community engagement and shared benefits: Best practices and common pitfalls.

Finally, one case interview noted that there can be challenges related to local content requirements in some countries, where it is expected that contracts are awarded to local communities. The company had noted risks related to the economic benefits from such contracts being captured by powerful individuals to the detriment of the wider community.

When such risks materialise, it is problematic not only from the community perspective, but it also creates risks for the company which is contributing the funds and thereby considered partially responsible for how those funds are utilised.

Case example 2: Community benefit schemes

Large wind farms and solar parks not only require community consent, but invariably entail compensation and benefit schemes where companies enter into long-term agreements with local communities over the lifetime of projects. While most companies have developed policies on community benefit sharing, actual practice varies considerably. Case interview C shared problems the company has faced in securing community consent and designing benefit-sharing schemes. They have experienced risks of local politicians and powerful individuals in affected communities demanding bribes or facilitation payments or exerting undue influence on project selection or the selection of suppliers.

In more mature contexts local authorities often have a structured framework governing the design of community benefit schemes. Despite this, one of the case interviews confirmed that there can still be risks related to pressure being put on companies to compete to offer the most favourable schemes as part of the licensing process. It is not necessarily illegal to offer such support, but there are concerns that this can influence in an irregular way the process of seeking consent and obtaining licences.

There were also concerns expressed related to how well the contributions are allocated and used. Several companies have introduced transparent processes and application procedures, publish details of grant awards on a publicly accessible website, and have relied on third parties to manage these schemes, but few share granular reporting on all community investments in the public domain. Case interview D referred to a slightly different example of positive co-development of a renewable energy project in Western Australia, with a ten percent free carry equity to final investment decision (FID) and a board seat for the Traditional Owners.

3.4 Risks related to licensing and permitting

Licensing and permitting processes are a key part of any renewable energy project. These processes are prone to risks of corruption and irregular influencing in most sectors, but the renewable energy sector has characteristics that contribute to heightened risks. Deployment of large-scale renewable energy projects typically depends on a complex set of licensing and permitting processes – resulting in permitting taking a lot of time and involving many entities (IEA, 2022a).

The maturity of these licensing processes and the capacity and competence of public authorities vary significantly across countries and technologies. For many countries the sector is relatively nascent and regulatory frameworks are not yet fully in place, or they are complex and slow and in need of

streamlining (Energy Transitions Commission, 2023b). Also in the EU there appears to be a mismatch between the volume of new projects planned and the capacity of authorities to process these (Ford, 2023). This is driving demand by companies and energy associations for speedier permitting processes, leading to an updated EU directive in October 2023 (European Union, 2022).

Case example 3: Licensing and permits

Obtaining licences and permits from national and local authorities for land concessions, construction and operations is one of the most challenging aspects of the renewable energy project lifecycle. Case interview B highlighted the potential consequences of pressure to speed up the licensing process for wind power projects in an environment of fierce competition while ensuring due diligence. The company reported that building trusted relationships with government officials is integral to success in securing licence approvals particularly where the process is still very new, or the legal frameworks are at an early stage of development. This can lead to situations where the line can get blurred between acceptable and unacceptable approaches to influencing such processes, particularly where companies are engaged in helping to build government understanding and capacity.

Case interview C offered an example where the operator was asked to provide support for permitting authorities as they can be under-resourced or are new to the process rather than requests for outright bribery payments. Officials in the concerned municipality, in a European location, reported they did not have the right amount of people to work on the permitting process in the expectation there would be support with these costs. The company did not know whether these were genuine costs or fake ones, where requests for payments could in the worst instance amount to bribery. Other examples were shared by Case interview D from the US, Canada and several African countries where the relevant authorities were under-resourced and lacked experience in processing permit applications and undertaking monitoring activities

Corruption risks in licensing and permitting processes may arise in a multitude of ways, ranging from direct bribes to more disguised forms of rent seeking. Interviews conducted for this study confirmed the risks related to the hiring of fictious and/or excessively remunerated third parties or consultants as a way of channelling bribes to public officials involved in licensing and permitting decisions. Media reports from Mexico have recently highlighted the problem of politicians and officials seeking bribes from companies for wind farms in exchange for project approvals and permits (Transparency

International, 2023). And a recent case of Chinese investment in a wind project in Bosnia-Herzegovina raised questions about questionable land deals involving local authorities (Zvijerac, 2024).

This may explain why beneficial ownership transparency was highlighted as a significant concern by most of the companies responding to the survey. This concern relates to the opaqueness of ownership structures in companies that are providing services or prospective partners, especially in jurisdictions with less well-developed rules or ownership disclosure requirements (see case example 3 above).

This can be especially problematic in the licensing process where corruption risks can arise with companies which have political connections and can benefit from favouritism or collusion in licence awards. Lack of transparency of beneficial owners can also affect the payment of taxes through the abuse of tax treaties with opaque jurisdictions and concealment of ownership and tax obligations (Open Ownership, Rialet and Markle, 2024).

Risks can also arise related to the involvement of local stakeholders in licensing processes, many of which do not have a formal say but can still influence the final licensing decision (Lindvall, 2023). Under most licensing regimes there are transparent rules for how different stakeholders should be consulted. Experience in wind farm development in Europe shows that formal channels for participation are integral to securing public acceptance of new projects (Maleki-Dizaji et al., 2020).

However, even where this is the case there is typically significant room for informal interactions between developers and impacted stakeholders (see case example 3 above). There have been numerous examples of such interactions being criticised for having an element of undue influencing or outright allegations of bribery. In a recent legal case in Germany, the courts concluded that corruption provisions had been breached when certain forms of community benefits were offered by a developer in an apparent quid pro quo arrangement in return for the authorities' support for the continued operation of a wind farm (Bundesgerichtshof, 2023).

Case example 4: Opaque ownership and favouritism

Many companies express concern over opaque ownership of sub-contractors, suppliers and joint venture partners. Case interview D highlighted the problem related to engaging with companies that are not publicly listed, especially small start-ups. Experience they had, for instance in Eastern Europe, revealed how it can be difficult to secure information about beneficial owners and their political connections, resulting in the need to make use of informal means to gather information for due diligence purposes.

The company had experienced the impact of opaque ownership and favouritism for instance when one project in Europe owned by a competitor was given the go-ahead without the necessary conditions in place, seemingly due to close connections with politicians.

In a different context, in Africa, the company had been offered a range of logistics services through an intermediary using various companies. In this case, beneficial ownership of these companies was difficult to identify, which created concerns related to the involvement of politically exposed persons in these entities.

Another recurring problem mentioned was related to expectations expressed by public officials of employment being granted or services acquired from companies or individuals indicated by them, carrying a risk of patronage and nepotism.

While the most critical licences and permits are obtained during the development phase of a project, there is also substantial interaction between the developer and authorities during the construction phase. This takes the form of construction-related permits, as well as inspections by the authorities.

At times, permitting taking place at a later point in the project can be associated with even greater risks, as the developer is under economic pressure to conclude the project on time. During this phase, the developer is dependent on a complex supply chain, which means that the interaction with public authorities happens in a distributed way. This makes it challenging for the developer to control any corruption risks that might arise.

The corruption and governance risks associated with licensing and permitting can also be found further down in the complex and long supply chains of the renewable energy sector. While developers have limited influence over the governance and corruption risks that arise in the extraction of raw materials (IEA, 2023b), they are bound by OECD due diligence guidelines for mitigating corruption, conflict risks and respecting human rights considerations in mineral supply chains (OECD, 2016b).

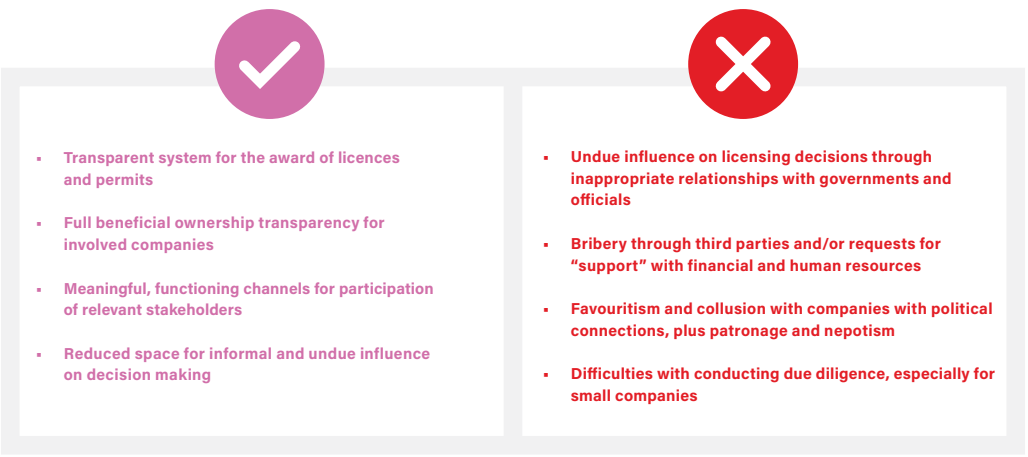

Figure 5: Licensing and permitting: Best practices and common pitfalls.

3.5 Risks related to taxation and subsidies

Another important set of risks that can undermine a just transition relates to taxation. While less covered in the literature to date, there is growing recognition that the growth of the renewable energy sector is creating fresh opportunities for extracting rents from tax and subsidy regimes (Strunz, Gawel and Lehmann, 2016). Our interviews also point to the experience of companies seeking to evade taxes and benefit from subsidies acquired through illegal means (see case example 5 below).

In more mature markets, most of the taxation arrangements for a renewable energy project are settled ex-ante as an integral part of national taxation policies. However, in countries with a more challenging governance set-up or where the sector is less developed, unclear and non-transparent negotiations related to taxation are not uncommon (Tax Justice Network, 2023). There are unfortunately indications that the sector is already experiencing problematic examples of tax evasion practices, often facilitated by corruption (U.S. Department of Justice, 2023).

The empirical evidence on this phenomenon is still limited, but there is an emerging body of media reporting that paints a picture of unethical tax practices at different levels. Examples include the risk of bribery or irregular influencing arising in tax negotiations, ultimately impacting in a significantly negative way on the prospect for value creation from the project benefiting society at large (see case example 5 below). Other challenges include companies that operate with a very aggressive tax planning or even tax evasion through convoluted corporate structuring of companies set up in tax havens (EU Tax Observatory, 2024).

Aside from the overall taxation framework, there are other risks related to specific tax incentives and subsidy regimes used by governments to promote renewable energy deployment. In some instances, these have attracted unscrupulous companies who seek to profit from such schemes through fraud and malfeasance. Investors in several European countries have been prosecuted over fraudulent land and subsidy deals (Carvajal, 2009). Well-documented cases in Italy found evidence of companies associated with criminal organisations securing significant benefits from energy subsidy schemes (Anesi, Martelliano and Hudson, 2014; Gennaioli and Tavoni, 2016). More recently, the Government of South Korea concluded an investigation into the illegal use of government subsidies for the promotion of solar energy, seeking the return of USD 54 million in funding (Han-joo, 2023).

There have also been fraudulent tax claims by investors in the procurement of solar equipment from China as major cases in Arizona and Utah recently demonstrated (United States Department of Justice, 2023). The availability of cheaper components from China has led governments in Europe and the US to impose import tariffs to protect domestic suppliers and producers. Corruption probes in recent years revealed cases of tax and tariff evasion in Germany and under-reporting of customs duties on solar cells and

components in India amounting to tens of millions of dollars (Wehrmann, 2020; Shukla, 2024). The US launched an investigation into anti-dumping and anti-subsidy tax evasion by importers of solar panels from Southeast Asia in 2022 (U.S. Department of Commerce, 2023).

Case example 5: Tax payments

Policies and procedures governing tax payments can be complex and cumbersome and these vary across countries and levels of government. Case interview D highlighted a practice in which companies aggressively push for tax exemptions in exchange for other types of financial obligations to local authorities. This can be problematic in contexts where practices are not well established and the scope for negotiation and discretion is greater.

Case interview E highlighted challenges over practices concerning tax breaks in Brazil where VAT reductions are offered to companies by some municipalities in return for social investments which are less regulated and transparent, but there is as yet no consistent practice across the country. This may not necessarily result in corruption but the lack of consistency and transparency in tax exemptions and payments can be a source of fraud and malfeasance.

Another set of risks relates to the practice of setting up company structures in such a way that minimises local tax contributions. In many cases such arrangements are not illegal, but nevertheless raise questions given the consequences for the sector. The implications of aggressive tax planning, and in some cases tax evasion, practices can be significant in monetary terms, given the enormous value creation and potential taxable revenues likely to be generated by the sector over the coming decades.

Recently, the media has started to pay more attention to the practice of investors and owners of wind and solar farms locating their headquarters in offshore tax havens to avoid higher payments. For instance, owners of wind farms in Scotland were found to be linked to offshore tax havens (Edwards and Tibbitt, 2021), and a number of Norwegian wind farms were reportedly found to have links to tax havens either through ownership or financing (Ringstad, 2021). These practices can be further complicated by beneficial ownership arrangements operating in the sector where shell companies with associations to elected politicians gain preferential access in bidding for contracts and investing the proceeds in offshore tax havens.[4]

4 See, for example, cases involving a company linked to the former President of Argentina (Baquero, Jaccard and Ruiz, 2021) and a separate case involving the former Prime Minister of Serbia (Zgaga, 2018). Also see (Open Ownership, Rialet and Markle, 2024).

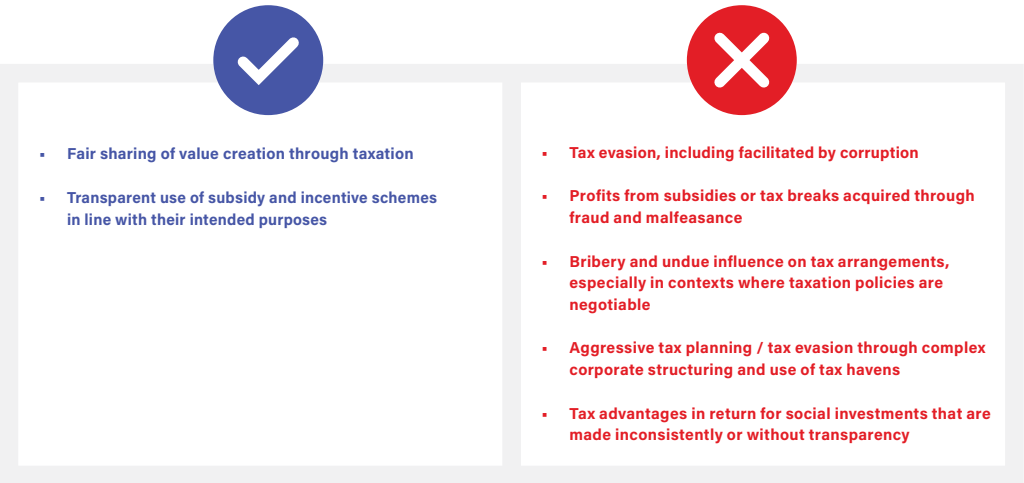

Figure 6: Taxation and subsidies: Best practices and common pitfalls.

4 Drivers of weak governance and lack of sector-wide response

4.1 Why are these risks arising in the renewables sector?

The previous section demonstrated that the renewable energy sector is not immune to governance and corruption risks. These risks are prevalent both in OECD and non-OECD countries. As our survey showed, while corruption risks in the sector are perceived to be relatively modest at present, the expectation is that these risks are likely to become more serious as the sector expands, especially in countries with weak governance settings.

A principal driver of corruption risk is perceived to be the rents generated by rapid growth and financial investment in a burgeoning new sector, exacerbated by weak or poorly conceived policy and regulatory frameworks and ineffective enforcement mechanisms.

These drivers have their roots in deeper political economy factors which can both impede and drive the growth of the renewables sector. A recent review of the renewables sector in Kenya and Mexico points to the influence of embedded rent-seeking behaviour in government and society derived from patronage, favouritism and elite dominance.

The review concluded: “The overlap of corruption risks in such different settings indicates that reducing the world’s overreliance on fossil fuels might reproduce old governance challenges associated with corruption, rent seeking and state capture that are common in traditional energy systems” (Ceballos Oviedo, Sovacool and Mullard, 2024, p. 21). In other words, underlying sources of corruption find expression in new sources of rent in the renewable energy sector.

Political economy analysis in the renewable energy sector highlights sources of resistance to the development of renewables, given the historical reliance on rents from the fossil fuel sector garnered by politicians and officials through state energy monopolies and subsidy regimes favouring the sector. This may be a feature of countries where entrenched patronage networks inhibit the diversification of the energy sector rather than ones in which policy reforms favouring renewables are firmly established in policy and practice (Burke and Stephens, 2018; Uzar, 2020; Bickersteth and McCulloch, 2024).

Another set of drivers of renewable energy reforms relate to institutional quality, especially the relationship between political ideology, institutional strength and the adoption by governments of renewable energy policies which can incentivise growth of the sector (Cadoret and Padovano, 2016). One recent study on factors shaping the adoption of renewable energy policies in 38 countries points to the importance of political and institutional variables in shaping the adoption of such policies, especially the rule of law, bureaucratic capacity and government stability (Uzar, 2020). By extension in country contexts where such variables are less evident one might expect slower take up of policy reforms.

Figure 7: Main drivers of governance and corruption risks in the renewable energy sector.

4.2 Drivers of governance and corruption risks in the renewable energy sector

There are several features of the renewables sector that render it especially prone to corruption risks and weak governance, several of which were confirmed in interviews for this study.

First, as noted at the outset, the sector is still undergoing a growth boom with opportunities for excess profits and rents. *Second*, the sector remains relatively nascent, and the regulatory environment is still under development. *Third*, the sector has a highly fragmented market, with many small companies operating with short time horizons and lacking rigorous compliance

procedures. *Fourth*, there are weakly developed mechanisms of accountability in the sector, reflected in the absence of common reporting standards and disclosure requirements, and lack of civil society engagement on governance and anti-corruption issues in the sector.

While some renewable energy companies are aware of the significance of these challenges, there is a significant gap in terms of the absence of concrete measures and lack of action by the sector as a whole. That is not a dissimilar situation to the one that was found in the extractive industries two decades ago. Explanations for the lack of a sector-wide response from those interviewed for the study centre on several factors: limited awareness or understanding of the risks; lack of investment in compliance functions; and weakly developed regulatory systems.

5 Lessons from the extractive sector

5.1 Governance and corruption risks in the extractive industries

While there are common features of corruption in the renewable energy sector and the extractive industries, there are also some key differences. One is that corruption in the oil and gas sector has been fundamentally shaped by the character of the political regimes. Control over the state machinery often helped incumbents monopolise rents in the sector, manifesting as a resource curse. This often assumed the form of grand corruption, where authoritarian ruling elites used control of state power to acquire enormous wealth through illicit means (Gillies, 2020).

A second key difference is that state-owned enterprises play a significant role in the oil and gas sector, especially in developing countries. While these national oil companies could serve as a means of attracting investment and furthering development through value creation, many ended up as highly indebted and corrupt (Heller, 2018). Neither of these features are present in the same way in the renewables sector, where the role of state-owned enterprises is more limited, although not unimportant, and state actors play a more limited role in terms of ownership and operations.

Opportunities for corrupt practices in the oil, gas and mining sector are widespread, especially in poorly governed countries with weak institutions (OECD, 2016a). This has negative impacts on wealth creation and distribution, taxation, company reputation and government legitimacy, all of which detract from the overriding need to ensure that citizens should be the principal beneficiaries of a country's natural resource wealth.

Corruption takes place along the entire extractive value chain, from exploration to licensing and contracts, production and exports, revenue sharing and commodity trading. Key examples of relevance for the renewable energy sector include:

- *Licensing and permitting* is a major source of corruption in the extractive sector, typically involving bribes or other inducements from companies to officials in cadastral agencies. This can result in preferential allocation for licences and permits awarded to companies that have political connections, opaque ownership structures or a poor track record of compliance requirements (Sayne, Gillies and Watkins, 2017).

- Another step in the value chain of relevance are the *contracting relationships* between mining companies and sub-contractors who provide services such as equipment, drilling and transportation through competitive tenders or sole sourcing. Until recently, most contracts between governments and private companies in the mining sector were not available in the public domain and were susceptible to bribery and favouritism.

- A further category of risk with relevance to the renewables sector concerns *revenue payments* by companies to governments and the management of these. Tax evasion is facilitated by opaqueness in revenue management systems. Several governments have revenue-sharing agreements which stipulate percentages of revenues to be allocated to sub-national authorities and the purposes for which they are allocated and used. The terms for allocating these revenue shares can be opaque or subject to discretion by officials, resulting in expenditures that do not address the priorities of local communities or are used unproductively.

- *Beneficial ownership transparency* has emerged as a key issue facing the extractive sector, especially in relation to the ultimate owners and beneficiaries of companies that are not publicly listed. Corruption risks arise in relation to suppliers, partners and joint ventures, especially when politically exposed persons with political connections have vested interests in companies bidding for licences, contracts and business opportunities.

- A final challenge relates to *community consent and engagement*. This is a major concern for the mining industry as increasing demand for critical raw materials fuels the growth of the sector with implications for lands held by Indigenous peoples and land-dependent communities (Sturman, 2022). Basic requirements around Free, Prior and Informed consent (FPIC) require Indigenous communities to be consulted at the early stage of mining development. There is also growing attention to the need to secure meaningful community benefits in the form of jobs, services and infrastructure.

Figure 8: Key governance areas in which lessons learned from the extractive industries could benefit the renewable energy sector.

5.2 Creation of a collective initiative

The depth and pervasiveness of the challenges illustrated above had become an increasing concern for governments and civil society in the 1990s and the momentum was growing for collective action to address the problem. This was the backdrop for the creation of the Extractive Industries Transparency Initiative (EITI), which sought to tackle corrupt practices in the sector through improved transparency and reporting, as a basis for ensuring equitable value creation that would primarily benefit the citizens of resource-rich countries (Rich and Moberg, 2015).

There are three particular aspects of the EITI that offer relevant lessons for the renewable energy sector: a shared agenda with a set of foundational principles on transparency in the sector; a multi-stakeholder group to bring together governments, companies and civil society to drive collective action in the sector; and the development of a common reporting standard and expectations for supporting companies.

A shared agenda

The EITI Principles were developed as a common set of aims and commitments at the inception of the EITI in June 2003 (see Annex 2) and endorsed by all stakeholders, to increase transparency over payments and revenues in the extractive sector. These foundational principles have stood the test of time and remain the cornerstone for the EITI's purpose and mission, even as the initiative has evolved to embrace anti-corruption and the energy transition as core strategic priorities alongside revenue generation (EITI, 2020). Reporting by governments and companies must be aligned with the EITI Principles, which enshrine civil society participation to foster accountability and public debate. In this regard, a review of the EITI's impact in 2017 found that the EITI has been successful in consolidating transparency as a global norm and institutionalising transparency practices in the extractive sector (Lujala, Aas Rustad and Le Billon, 2017).

A platform for multi-stakeholder action

The EITI Principles provided a strong common foundation for the EITI mission and secured the buy-in of governments, companies and civil society through equal representation in a multi-stakeholder governance structure. This organisational principle formed the basis for determining the membership of the international board and similar structures in each EITI implementing country. The primary purpose of the multi-stakeholder group was to provide

oversight on EITI reporting, thereby providing an accountability mechanism for country implementation (Rich and Moberg, 2015).

The multi-stakeholder nature of the EITI allows for scrutiny of both governments and companies through their respective reporting obligations. A recent independent evaluation concluded that in some countries the multi-stakeholder group was the only platform that existed to promote inclusive decision making and that "the EITI's multi-stakeholder governance structure has been effective in ensuring that extractive industry stakeholders come together and deliberate" (Voconiq & Square Circle, 2022, p. 35).

A common standard for reporting

Over time the EITI developed a reporting structure setting out disclosure requirements along the extractives value chain in the form of the EITI Standard. The Standard includes disclosure requirements for both governments and companies in EITI implementing countries which makes it distinct from unilateral disclosures made by companies through other reporting frameworks. Four dimensions of EITI reporting are most readily applicable to the renewables sector with a particular focus on governance and corruption risks (Gillies, 2019; Boyer and Salomon, 2023):

- *Licences, permits and contracts:* EITI reporting requires details of licence allocations to be made publicly available. Implementing countries are required to maintain a public register containing timely and comprehensive information on the licences awarded within the scope of EITI implementation. Updated provisions in the 2023 EITI Standard introduced requirements for companies to divulge information on beneficial owners to expose the interest of politically exposed persons in licensing awards. There is also a more recent provision on documenting fast-tracking procedures for licences to ensure adequate safeguards are met.

- *Contracts:* A new 2021 requirement stipulates that all new contracts entered into between governments and private companies must be published in their entirety (EITI, 2023c). Placing contracts in the public domain can help identify the terms of the deal for public scrutiny, especially details of royalties and revenue-sharing agreements. These provisions have had significant and positive impact in a number of countries.[5] Some EITI member companies are now proactively disclosing contracts in line with this provision.

- *Tax disclosures:* Companies are required to routinely disclose taxes and payments to governments from extractive operations to enable public understanding of the contribution of the sector to government revenues, including at the project level where applicable. Tax

5 For example, the Democratic Republic of Congo routinely publishes all contracts in the extractive sector, laying the basis for a review and revision of a major Chinese mining contract on more favourable terms (Rakotoseheno, 2024).

disclosures also extend to transfers and payments to subnational governments and local communities. EITI reporting includes a requirement for greater transparency of the determination of payments and use of revenue payments, to minimise the potential misuse of funds.

- *Beneficial ownership:* Beneficial ownership transparency has emerged as a key issue, especially in relation to the ultimate owners and beneficiaries of companies that are not publicly listed. Corruption risks arise in relation to suppliers, partners and joint ventures, especially when politically exposed persons have vested interests in companies bidding for licences, contracts and business opportunities. The EITI Standard first introduced a reporting requirement on beneficial ownership in 2016 and has subsequently strengthened this provision. There are reporting requirements for companies to divulge information on beneficial ownership to identify risks that politically exposed individuals could have a potential stake in licensing awards.

- *Community engagement:* The EITI Standard includes a requirement to disclose information on FPIC and community consultations, where this is mandated, to improve oversight on how community priorities are determined. Reporting requirements include the topic of community benefits in licensing procedures, as well as disclosing gender-disaggregated data on benefits to communities and contracts mandating social and environmental payments. There are also provisions for public disclosure of environmental, social and gender impact assessments and their monitoring and enforcement. The Standard further requires that all mandatory social expenditures by companies (i.e., required by law or contract) must be disclosed, and encourages companies to disclose voluntary social expenditures.

In recent years the EITI has deepened its scrutiny of corporate performance and accountability, with nine specific reporting expectations for companies to adhere to in line with the EITI Standard (EITI, 2022a). EITI company members went through an assessment by the EITI Secretariat in 2022 with the results published the following year. The exercise was intended to share good practice and incentivise progress in company reporting. It generated several important findings.

- First, companies are expected to engage in rigorous due diligence by publishing their anti-corruption and beneficial ownership policies on their websites. In practice most EITI supporting companies publish their anti-corruption policies and beneficial owners, but only a third published statements of support on beneficial ownership.

- Second, there was an improvement in company tax reporting, with an increase from 70% in 2021 to 90% in 2023 in non-EITI countries. Almost 70% of companies were reporting taxes and payments at the project level, pointing to further scope for improvement.

- Third, member companies are expected to publish a statement in support of disclosure of contracts and licences. While 70% of companies do meet this expectation, it is recognised there is scope for improvement (EITI, 2023a).

Since the completion of the assessment EITI member companies continue to make progress, demonstrating the potential of such an exercise for driving up standards of corporate accountability with potential application to the renewables sector (EITI, 2024).

This brief review highlights key benefits of the EITI model. First, the EITI includes disclosure requirements for governments as well as companies. Second, the EITI consolidates disclosures from relevant national actors and publishes them in a single place, as distinct from unilateral disclosures such as those under the Global Reporting Initiative. Finally, the EITI enables a multi-stakeholder platform for discussion and scrutiny.

6 Implications for collective action in the renewables sector

Given the likely increase in governance and corruption risks in the renewable energy sector going forward, there is a need to explore how the sector can address these risks in a more robust way, while recognising that the sector is not yet cohesive and that companies may have different goals. Ideas related to collective action to develop shared norms, common standards and multi-stakeholder platforms are set out in the following sections.

6.1 Collective action agenda

Despite the growing awareness of governance and corruption risks in the renewable energy sector there are limited examples of collective action on the topic to date. While many companies are attentive to the risks and have developed mitigation strategies to guard against these, the renewables sector has thus far not taken robust action. Key sector organisations such as the International Energy Agency (IEA), the Global Alliance for Sustainable Energy and the International Renewable Energy Agency (IRENA) have well-developed agendas on the just transition, but limited reference on their websites to governance and corruption risks which could undermine this agenda.

In interviews with company representatives, several reasons were given to explain this lack of collective sector engagement to date:

- *Priority* is given to other more immediate risks which are perceived to be more consequential in impeding renewable project development, such as lack of adequate finance or community support.

- The relative *newness* of the sector could mean that many companies have not yet recognised the significance of the governance and corruption risks described, in turn explaining the limited current level of attention by industry associations.
- Many companies in the sector are relatively small and may not have acquired the specialist *knowledge and capacity* to undertake specific risk assessments or have the resources to set up dedicated due diligence functions.
- Companies and organisations may not want to tarnish their *image* as "darlings of the future" (in the words of one interviewee) and focus on the upsides, rather than on the risks. The sector is viewed as inherently good, aimed at achieving net-zero goals, so negative publicity may be considered unwelcome.

Despite some differences in views as to what steps the sector should take, the company representatives interviewed all agree that more robust collective action is needed. Some discussions have already unfolded, including the initiative to launch a Call to Action for advancing transparency and accountability in the renewable energy sector at COP28.[6] This included support from leading sector organisations such as the Global Renewables Alliance and REN21, renewable energy companies and civil society organisations. The Call to Action contained a proposal for a set of principles that could inform the development of a shared agenda and foundational principles for collective action for the sector (EITI, 2023b).

6.2 Common standards and disclosures

In addition to a shared agenda, the experience from the EITI shows the value of having a set of agreed standards for how companies should manage, disclose and report on topics that are relevant for increased transparency and accountability. For the renewables sector this could include common standards for companies related to community benefits, anti-corruption efforts and tax transparency. This was identified as a priority by companies interviewed for the study. As one interviewee observed: "There is really no-one watching. There is no code for regulators and developers. There is no tracking of their behaviour." Another commented: "The standards will come – the responsibility lies with us as companies."

There are useful references in standards and benchmarks in the sector which are outlined below, focused on those applicable to companies headquartered in Europe. The overview shows that while corruption and governance risks are mentioned in some of these, the level of granularity is limited (except for the Green Hydrogen Standard) and thus critical aspects are left unaddressed. The level of verification and follow-up also varies significantly (Trapnell and Zinnbauer, 2023).

6 More information about this initiative can be found on the EITI website (EITI, 2023b).

Overview of coverage of governance and corruption risks in sector standards/benchmarks

Hydropower Sustainability Standard (hydrosustainability.org): This contains expectations on company behaviour with regard to sound business practices that address transparency, integrity and accountability and can help to manage public-sector corruption risks. There is also reference to an expectation to ensure transparent procurement processes with the inclusion of anti-corruption criteria and measures. There is also an expectation to report externally on the policies and processes in place.

Solar Sustainability Best Practices Benchmark (solarpowereurope.org): There is a general expectation for companies to share comprehensive information with local communities, authorities and the general population on any projects they are developing. This includes an expectation to share information about economic benefits for the municipality, both in terms of tax and other financial contributions in line with legal requirements. There is no explicit mention otherwise of the topic of integrity or anti-corruption, except for a reference in one of the case studies.

The Green Hydrogen Standard (gh2.org): This standard has a more comprehensive coverage of corruption and tax issues. It requires companies to take an active approach to disclosures, and sets expectations for reporting on licences, approvals and financial transactions with the government in connection with a given project. It also expects companies to report on tax payments and subsidies, beneficial ownership and, where relevant, community benefit arrangements.

Renewable Energy & Human Rights Benchmark (business-humanrights.org): The benchmark contains a specific section on transparency and anti-corruption, with a focus on whether companies have adopted anti-corruption commitments and standards, whether these are extended to suppliers and other business relationships, and whether they report on any alleged instances of corruption. There is a question on whether companies disclose payments made to governments for purchase/rent of land or natural resources (and the terms), in connection with a project, and whether their suppliers or other business partners are required to disclose the same.

When it comes to reporting and disclosure, the requirements of general corporate reporting frameworks provide a useful basis, but also leave important gaps. The main reporting standards such as the Global Reporting

Standard (GRI, no date), and the new Environmental and Social Reporting Standards (ESRS) of the EU's Corporate Sustainability Reporting Directive (CSRD) (EU, 2023), cover corruption, community benefits and tax, but the level of granularity on these topics needs to be improved. The text box below describes relevant CSRD reporting requirements.

High-level overview of ESRS reporting requirements of relevance for governance and corruption risks (EU, 2023)

The ESRS include general expectations related to companies disclosing information about the policies and management systems in place for managing business ethics and anti-corruption matters, including lobbying and political influencing. In addition, there are requirements for disclosures of actual practice / outcomes – such as the ones listed below:

Disclosure Requirement G1-4 – Incidents of corruption or bribery: Companies are expected to disclose confirmed incidents of corruption or bribery (either directly or in the value chain) and the consequences in terms of disciplinary sanctions or termination of contracts.

Disclosure Requirement G1-5 – Political influence and lobbying activities: Companies are expected to disclose the total monetary value of financial and in-kind political contributions made directly and indirectly as well as the type of recipient/beneficiary, in addition to whether the company is registered in the EU Transparency Register or in an equivalent transparency register in a Member State.

The ESRS also include other reporting requirements of relevance such as ESRS S3 on affected communities. Here companies are expected to disclose information on how they engage with affected communities, and how and with what resources they mitigate impacts. This includes a reference to impacts not only from the company's value proposition and value chain – but also from its revenue model. This can provide a useful entry point for exploring further ideas for "best practice" on the reporting of the interplay between taxation practices and the impact on communities.

The development of disclosure standards could also draw on relevant aspects of the EITI Standard and reporting frameworks developed for the mining sector (ICMM, 2022). Some EITI implementing countries are already reporting on aspects of the renewables sector.[7] The "Expectations for EITI supporting

7 EITI implementing countries reporting on renewables includes the following: Albania - reporting on the legal framework, production and revenues in the hydropower sector; Colombia - subnational dialogue on the energy transition involving extractives and renewables stakeholders; Germany - disclosure of contextual information, including renewables subsidies, and study on the material requirements of the renewables sector; Mauritania - modelling of the revenue potential of the green hydrogen sector; and Zambia - discussions on the feasibility of applying EITI contract disclosure requirements to the renewables sector.

companies" offers a useful approach for developing sector-wide criteria for company disclosures, tailored to the composition and distinctive features of companies in the renewables sector (EITI, 2022a).

With reference to the EITI experience, it would be helpful for a new set of standards to address key gaps related to project reporting (i.e., on licensing and permitting processes including the terms of these; taxation and other payments to government authorities; and community benefits promised and provided). Requirements for more systematic reporting and documentation of corruption incidents encountered and how these were resolved would also be valuable. Finally, more granular reporting on the approach to and findings related to beneficial ownership of material business partners and suppliers would be a key priority.

There are also important questions to address with regard to the form such standards should take and the natural home for both the standards and the process of verification of disclosures and wider stakeholder engagement (see next section). The choice of entity and set-up would need to be informed by a wider discussion in the sector.

6.3 Platform for multi-stakeholder action

Experience from the extractive sector suggests that the adoption of a shared agenda and common disclosure standards requires a platform to promote collective action on disclosures and enhanced scrutiny.

There are a range of models to consider in this regard and no single template to draw on for this purpose. To be considered legitimate and appropriate, the development of such a platform would need to reflect the composition and needs of the sector, by including industry associations, companies and investors along with governments and civil society organisations.

Given the importance of tackling governance and corruption risks for delivering on the just transition agenda, it might be possible to look at expanding the focus of one of the established platforms that works systematically on the just transition agenda. Alternatively, a separate collective action agenda could be carved out specifically dedicated to the governance and corruption risks discussed in this paper. Regardless of the framing, leadership from an already existing organisation or platform would be the most efficient way to take this work forward. Examples include established multi-stakeholder platforms in the renewable energy sector such as REN21 (REN21, 2023), technology-specific business associations and policy platforms.

In addition to identifying a platform that would be willing to take the lead, the development of such a multi-stakeholder initiative would also be dependent on strong leadership from a group of dedicated founding companies. Finally, the participation of strong civil society voices has proven to be critical in the context of the EITI experience. Unlike the extractive sector, there is currently no international civil society organisation that is dedicated to advocacy and

campaigning on these issues in the renewables sector.[8]

6.4 Enhanced incentives

Experience has shown that companies are more likely to rapidly change their practices when faced with clear incentives to do so. There is potential for both public authorities and the financial sector to develop stronger incentives through conditionality in regulatory processes and conditions for financing that could contribute to incentivising best practice, thereby creating a level playing field and ensuring better outcomes.

Figure 9: Main elements and supporting features of a collective action initiative to improve governance in the renewables sector.

Governments and multilateral bodies like the European Commission can play a powerful role in setting expectations and creating incentives for company behaviours. This can take the form of legislation and guidelines for companies in the sector. Governments can also establish clearer rules around eligibility for tax incentives and subsidies to guard against the risk of abuse and malfeasance, with stricter monitoring regimes to ensure compliance.

They can also strengthen governance provisions and eligibility requirements in auctions for licences and rules around public procurement. Examples of proactive use of conditionality by governments are given in the text box below summarising the recommendations from a recent paper on the topic (Mazzucato and Rodrik, 2023).

Examples of cases of conditionality from the working paper "Industrial Policy with Conditionalities: A Taxonomy and Sample Cases" (Mazzucato and Rodrik, 2023)

The working paper by Mazzucato and Rodrik presents ideas related to how governments can introduce conditionality into the various types of public-private partnerships that exist, with the intention of influencing the outcome of these:

8 A coalition of 102 organisations issued a joint statement at COP28 relating to some aspects of the renewable energy agenda from a shared prosperity perspective (The European Coalition for Corporate Justice, 2023).

> "We focus on interactions between a public agency ("the government") and a private-sector entity ("the firm") where the government provides a benefit to the firm (a grant, loans or equity investments, procurement contracts, tax incentives, training, infrastructure, technological support, regulatory forbearance, etc.) in return for the firm undertaking behavioral changes towards meeting certain public objectives. Conditionality refers to the framework specifying the responsibilities, commitments, or undertakings of the firm." (Ibid., p.6).

The paper presents a very relevant case study on ScotWind, an incentive scheme with lease agreements and public bank loans launched by the government in Scotland to promote the development of the offshore wind industry. The case study illustrates how conditions were introduced to promote the development of local jobs. Recipients of incentives under the scheme were held accountable for delivery of the benefits they promised in this regard.

Large-scale investors in the renewable energy sector can play a key role in influencing companies to adopt stronger policies and commitments on governance and anti-corruption as an integral part of their lending criteria. For instance, large pension funds are directing more investment into the renewable energy sector and could play a useful role in incentivising companies to adhere to stricter sector standards on governance and anti-corruption (Mooney and Cumbo, 2024; CIP, no date).

There are obvious reasons for both public authorities and the financial sector to strengthen their incentives in this regard, as tackling these risks is critical for the delivery of a just transition to which they are generally committed. It would therefore be beneficial to facilitate discussions across the sector on this topic that also include the involvement of policy makers from government as well as leading financial institutions.

6.5 Best practices

There is potential for mutual learning between companies in the sector. Based on the survey results, interviews and review of annual reports, it was clear that all the companies surveyed already have policies in place and disclose information on relevant topics, but with some limitations:

- All companies have high-level statements on corruption risks and a zero tolerance for bribery, but only a few companies go beyond this in terms of disclosing mitigation efforts.

- All companies state they have a policy on supply chain due diligence, i.e., mechanisms in place for investigating risks associated with contracts or transactions with third parties, whether suppliers, partners or distributors. But three-quarters say they do not disclose information on supply chain due diligence efforts. Most of the

companies have a policy on beneficial ownership transparency. More than half publish information on beneficial owners, but only of their own company (not their main business partners or suppliers).

- Most of the companies surveyed report on development, production and sales. However, only half of the them publicly disclose licences and contracts awarded by governments. Half the companies have a policy on tax disclosure and publish details of taxes and payments. A similar proportion state that they face barriers in tax disclosure and payments. Most respondents do not disclose project-level taxes.

- All but one of the companies surveyed have a policy on community engagement and disclose information on social and environmental impacts, but only half disclose information on social spending and community benefits. Half report problems in obtaining community consent. While all recognise the importance of strong community engagement, practice varies widely. One company reports an established practice of engaging communities throughout the lifecycle of projects, with consultations and dialogue with affected communities prior to investment decisions, and grievance and communication mechanisms in place during construction. Only two publish information on community engagement in their annual reports.

The above-mentioned gaps notwithstanding, some companies report exemplary practices that could inform the development of shared approaches and guidance on due diligence and risk mitigation (see text box below). Several have developed clear policies and safeguards on anti-corruption which could be shared through their respective industry associations as examples of best practice that could be more widely adopted.

Examples of good practice related to management of governance and corruption risks reflected in annual reports

- Vattenfall has adopted a whistleblower policy for employees, contractors, suppliers, partners and other stakeholders to report confidentially on concerns relating to fraud, corruption and conflicts of interest (Whistle-blowing and complaints, no date). It also organises periodic staff training on bribery, fraud and corruption as part of its corporate integrity programme.

- Statkraft has published details of specific community benefit schemes, such as the Berry Burn Community Fund in Scotland, with details of grant awards amounting to GBP 174,000 annually over a 25-year lifespan (Berry Burn Community Fund, no date).

- Vestas was one of the first companies in the sector to publish a tax sustainability report in 2023, containing details of its tax policies, transfer pricing, tax havens, tax incentives and payments by country and region (Vestas, 2023).

The sector would benefit from the development of shared guidance on risk mitigation which could draw on best practice that already exists in the sector and in other sectors (NRGI, 2021). This could helpfully cover both methods of work and resourcing requirements for adequate risk mitigation.

Specific guidance is evolving on parts of this agenda, such as community engagement and benefits, which could inform the development of broader shared guidance (Lane and Hicks, 2019; IRENA, 2021; Local Energy Scotland, no date). There are also companies active in the renewables sector who could bring experience from their engagement on similar risks in the extractive sector under the EITI umbrella.[9]

7 Conclusion

The key premise of this paper is that failure on the part of renewable energy sector to tackle governance and corruption risks could undermine the potential realisation of a just transition and the delivery of the COP28 goal of tripling renewable energy capacity by 2030. Lessons can be learned from the experience of the extractive sector to avoid repeating past problems and the possibility of a green resource curse. This paper presents proposals for advancing collective action to tackle this challenge.

Relevant industry associations have not yet demonstrated a concerted commitment to tackle this agenda, and the absence of firm civil society pressure means there is insufficient demand for company accountability on the topic. There is also limited evidence of governments and multilateral bodies introducing clear incentives to motivate company action.

Given the lack of active leadership on the agenda, there might be a need initially for increased awareness raising, before building a consensus around the need for a common standard and multi-stakeholder approaches. While this paper primarily focuses on industry responses, there is an evident need also to sensitise regulators, anti-corruption agencies and supreme audit institutions to the growing risks in the sector to improve understanding and galvanise action.

For collective action to succeed going forward, it will require stakeholders that are willing to lean in and take the initiative. This will require leadership from within the sector and would be most effective if participation could be secured from companies, governments and civil society as well as investors. This should be possible as all these constituencies share an interest in tackling the governance and corruption risks that could put the green transition into jeopardy.

9 Four EITI supporting companies (ArcelorMittal, Equinor, Shell and Total Energies) are members of Solar Power Europe, and three are members of the Global Wind Energy Council (bp, Equinor and Shell) while TotalEnergies is a member of the International Hydropower Association.

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Annex 1: Overview of frameworks for a just transition

Institution	Key topics of focus
Civil society / labour / policy	
Business and human rights resources centre (Business & Human Rights Resource Centre, 2024)	▪ Shared prosperity: shared prosperity models that build worker and community rights in companies' operations and supply chains. ▪ Human rights and social protection: shield workers and communities from harm; to demonstrate due diligence to minimise human rights and environmental risks; and to ensure social protection, retraining and creating new decent work. ▪ Fair negotiations: Communities and workers need guarantees that negotiations will be fair throughout operational life cycles, including FPIC for Indigenous Peoples.
ITUC – Just Transition Centre (ITUC, 2017)	▪ Support, retraining, redeployment, and secure pensions for workers. ▪ Recognise that investing in community renewal is critical. ▪ Support innovation and shared technology. ▪ Involve workers in the sectoral plans. ▪ Ensure investment in the jobs and decent work vital to both adaptation and mitigation. ▪ Guarantee essential social protection and human rights. ▪ Social dialogue with all relevant parties, collective bargaining with workers and their unions
IRENA Just transition framework (IRENA, 2024a)	▪ Energy and jobs ▪ Local value creation ▪ Socioeconomic footprint ▪ Gender ▪ Energy Access ▪ Education and skills
Multinational bodies	
EU – The Just Transition Mechanism (The European Commission, no date)	▪ People and citizens, most vulnerable to the transition (employment opportunities, re-skilling, energy-efficient housing, energy poverty) ▪ Companies and sectors, active in or comprising carbon-intensive industries (supporting the transition and economic diversification, easier access to loans and financial support, R&D) ▪ Member States and regions, with high dependence on fossil fuel and carbon-intensive industries (supporting the transition, creating new jobs, investing in public and sustainable transport, financing)
UNFCCC – United Arab Emirates Just Transition work programme (UNFCCC, 2023)	▪ Sustainable development and poverty eradication as part of transitions globally to low emissions and climate resilience ▪ Approaches to enhancing adaptation and climate resilience at the national and international level. ▪ Just transition of the workforce and the creation of decent work and quality jobs and the recognition of labour rights. ▪ Inclusive and participatory approaches to just transitions that leave no one behind. ▪ International cooperation as an enabler of just transition
ILO - Guidelines for a just transition (ILO, 2015)	▪ Decent Work Agenda – social dialogue, social protection, rights at work and employment ▪ Social dialogue has to be an integral part of the institutional framework for policymaking and implementation. ▪ Promote and realize fundamental principles and rights at work. ▪ Take into account the strong gender dimension of many environmental challenges and opportunities. ▪ Anticipating impacts on employment, adequate and sustainable social protection for job losses and displacement, skills development, and social dialogue, including the effective exercise of the right to organize and bargain collectively.

Frameworks for the private sector	
B4IG - Just Transition Indicators (B4IG, 2023)	▪ Transparent (and inclusive) planning process ▪ Employment ▪ Upskilling and reskilling ▪ Access to goods and services
B Team and Just Transition Centre (The B Team, 2018)	▪ Human and gender rights ▪ Social dialogue between workers via their unions and companies, and consultation with key stakeholders. ▪ Impact of: a) the transition to net-zero emissions; and b) climate risks, on employment and communities ▪ Ensure emissions reductions plans that also promote sustainable development, jobs, and inclusion. ▪ Mitigate job losses and focus on skills development.
World Benchmarking Alliance - 2021 Just Transition Assessment[10] (World Benchmarking Alliance, 2021)	▪ Social dialogue and stakeholder engagement ▪ Planning for a just transition ▪ Green and decent job creation ▪ Retaining and re-and/or upskilling ▪ Social protection and social impact management
UN Global Compact (UN Global Compact, 2023)	▪ Advancing decent work (employment, rights at work, social dialogue, social protection) ▪ Promoting social inclusion (opportunities, access to resources, voice, respect for rights)

10 In addition, they have a set of social indicators with a section on acting ethically.

Annex 2: EITI Principles

The EITI Principles provide the cornerstone of the initiative. They are:

1. We share a belief that the prudent use of natural resource wealth should be an important engine for sustainable economic growth that contributes to sustainable development and poverty reduction, but if not managed properly, can create negative economic and social impacts.

2. We affirm that management of natural resource wealth for the benefit of a country's citizens is in the domain of sovereign governments to be exercised in the interest of their national development.

3. We recognise that the benefits of resource extraction occur as revenue streams over many years and can be highly price dependent.

4. We recognise that a public understanding of government revenues and expenditure over time could help public debate and inform choice of appropriate and realistic options for sustainable development.

5. We underline the importance of transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability.

6. We recognise that achievement of greater transparency must be set in the context of respect for contracts and laws.

7. We recognise the enhanced environment for domestic and foreign direct investment that financial transparency may bring.

8. We believe in the principle and practice of accountability by government to all citizens for the stewardship of revenue streams and public expenditure.

9. We are committed to encouraging high standards of transparency and accountability in public life, in government operations and in business.

10. We believe that a broadly consistent and workable approach to the disclosure of payments and revenues is required, which is simple to undertake and to use.

11. We believe that disclosure of payments in a given country should involve all extractive industry companies operating in that country.

12. In seeking solutions, we believe that all stakeholders have important and relevant contributions to make – including governments and their agencies, extractive industry companies, service companies, multilateral organisations, financial organisations, investors, and non-governmental organisations.

Annex 3: EITI Company expectations*

- **Expectation 1** Publicly declare and publish support for the EITI and the objective of the EITI Association to make the EITI Principles and the EITI Standard the internationally accepted standard for transparency in the oil, gas, and mining sectors.

- **Expectation 2** Make comprehensive disclosures in accordance with the EITI Standard in all EITI implementing countries where the company or its controlled subsidiaries operate. Where not disclosed in other company reporting, publicly disclose a list of controlled subsidiaries operating in the oil, gas or mining sectors in EITI implementing countries.

- **Expectation 3** Publicly disclose taxes and payments to governments at a project-level in line with the EITI Standard in all non-EITI implementing countries where the company operates unless disclosure is not feasible. Where not feasible, the country-specific legal or practical barriers to disclosure should be publicly explained.

- **Expectation 4** For companies buying oil, gas and/or mineral resources from the state in EITI implementing countries, disclose volumes received and payments made in line with the EITI Standard and the EITI reporting guidelines for companies buying oil, gas, and minerals from governments, unless disclosure is not feasible.*

- **Expectation 5** In line with the EITI Standard, publicly disclose audited financial statements, or the main items (i.e., balance sheet, profit/loss statement, cash flows) where financial statements are not available.

- **Expectation 6** Publicly declare and publish support for beneficial ownership transparency and publicly disclose beneficial owners in line with the EITI Standard, recognising that listed companies will disclose the name of the stock exchange(s), include a link(s) to stock exchange filings where they are listed and otherwise do what is required by applicable regulations and listing requirements.

- **Expectation 7** Engage in rigorous due diligence processes and publish an anti-corruption policy setting out how the company manages corruption risk, including how the company collects and takes risk-based steps to use beneficial ownership data regarding joint venture partners, contractors, and suppliers in its processes.

- **Expectation 8** Publicly declare and publish support for governments' efforts to publicly disclose contracts and licences that govern the exploration and exploitation of oil, gas, and minerals in line with the EITI Standard, and contribute to public disclosure of contracts and licences in EITI implementing countries consistent with government procedures.

- **Expectation 9** Publish a commitment and/or policy on gender diversity in the oil, gas or mining sectors and support reporting by EITI implementing countries under the EITI Standard by disclosing employment in the sectors disaggregated by gender.

* Expectation does not apply to the renewables sector.