Combatting Corruption: Energy

Guidance Note - DG INTPA G1

This note is an excerpt of longer guidance currently in development, exploring anti-corruption in different sectors.

Energy is central to socio-economic activities, a main driver to economic prosperity, powering all sectors - from agriculture, health, and households to manufacturing and transportation - and crucial for achieving sustainable development. Given that development and transformation of the energy sector including extraction requires substantial investments it is a prime target for and source of corruption, including geostrategic corruption which does not aim primarily at an economic benefit but rather political influence for favourable political and legal outcomes. Therefore, corruption in the energy sector is a serious threat to tackle climate change and to the security of a nation.

Energy, closely connected to climate issues, has been a critical component of the EU international partnership and support: Global Gateway supports investments in climate mitigation, resilience, and clean energy by promoting green technology exchanges and reinforcing energy security - a necessity but also a major economic opportunity in LMICs. This is in line with the Agenda 2030, and SDG 7 "Ensure access to affordable, reliable, sustainable and modern energy for all" and commitments of the Paris Agreement on climate change.

Corruption Risks and Mitigation

Typical corruption risks in the energy sector occur along the main functions of public entities in the energy value chain, namely decision-making, management of natural resources including extraction, operation of state-owned enterprises (SOE), public procurement, and public service provision. This section briefly describes these, provides further information and examples for different approaches to mitigate these risks:

Decision Making – The Target of corruption in the energy sector affects decision-making concerning the extraction of fuels and other natural resources, subsidies, construction of power grids, licensing, and regulations for energy supply as a public service for citizens. Widespread forms are unequal access to lobbying, collusion, compromised power regulatory agencies and the transnational component of grand corruption. Bribery of foreign public officials by multinational companies diverts resources, undermines democracy, human rights, and the rule of law, and distorts markets. Negative consequences of grand corruption in energy transition policies include environmental degradation, health risks, human rights violations, suboptimal resource allocation, and delays in the green energy transition.

Resources for further reading:
OECD Open Government Toolkit Open government - OECD.
UK Government Open Policy Making Toolkit.
The Governance Lab at NY University has formulated eight recommendations for open and engaged policy-making.
The latest TI report 'Exporting Corruption' (2022) assesses the foreign bribery enforcement of the OECD Anti-Bribery Convention (adopted 1997) and identifies a range of inadequacies in legal frameworks, and enforcement systems.
A joint analysis by TI and U4 (2022) gives an overview of successful anti-corruption measures as well as failures in the Ghanaian energy sector.
OGP published this short guide on mainstreaming participation in decision-making, with recommendations and examples of possible reform actions.
Based on a legal and political economy analysis of Zambia's anti-corruption regime 2001-2021 in the renewable energy sector, U4 together with CMI provide concrete reform recommendations.

Extraction and management of natural resources – The Targets of corruption include exploration, processing of fuels, and energy acquisition. Forms of corruption are e. g. collusion, bid rigging, bribery in fuel contracts and mining licences, and procurement. Due to the higher risk of geostrategic corruption, it can present a threat to national security. Impact also includes embezzlement of natural resources, and environmental damage.

Resources for further reading:
OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector. Given that the energy sector is closely dependent on the extraction of fuels, a central collective action initiative is Extractive Industry Transparency Initiative (EITI). EITI provides data that can help identify and close channels for corruption. Each country that has joined EITI has established a multi-stakeholder group, composed of government, companies and civil society. The B20 hub of the Basel Institute on Governance offers tools, resources, and case studies on different mechanisms of collective action as well as provides a free advice service for anti-corruption practitioners and other professionals or government officials.

Operation of State-Owned Enterprises (SOE) – Research by the OECD and others shows that certain SOE (their mandates and the management) may be particularly exposed to corruption risk. State ownership is concentrated in high-risk sectors, like extractive industries and infrastructure, where the public and private sectors intersect via valuable concessions and large public procurement projects. Forms of corruption are e. g. nepotism, clientelism, patronage in the hiring process and embezzlement. Consequences include waste of resources, mismanagement, monopolisation, oligarchy, and state capture.

Resources for further reading:
OECD provides further resources, such as the Guidelines on Anti-Corruption and Integrity in SOEs, a corresponding Implementation Guide, and Peer Learning Handbook "Compliance without Borders" for strengthening integrity in SOE.
OGP and NDI have published guides on combating kleptocracy, at both national and sub-national levels, including on SOEs management and beyond.

Public Procurement – Construction, and maintenance of energy infrastructure, services for processing fuels and transmission as

well as distribution are sources of corruption risk, manifesting in kickbacks, overpricing, unaccounted for spending and under-delivery. Consequences are the waste of resources, costs inflation, decreased service quality and reliability.

Resources for further reading:

OECD provides further resources, such as its paper on Preventing Corruption in Public Procurement, and its Anti-Corruption and Integrity Hub.

IACA's and UNOPS free online training on 'Fraud and Corruption Prevention in Public Procurement'. UNODC provides University Modules for Anti-Corruption training, also on public procurement (Module 4 Public Sector Corruption).

The IMF outlines in its Working Paper from May 2022 a methodology and results in assessing corruption risks in public procurement and their impact on relative prices, using large databases on government contracts and tenders.

OGP has published a guide on Open Contracting with reform recommendations and examples, as well as evidence of impact. More arguments and case studies demonstrating the benefits of open contracting can also be found in this guide.

The Open Contracting Partnership has developed a wealth of resources on open contracting, including specifically for extractive industries and its joint global analysis with the Natural Resource Governance Institute (NRGI) which identifies 16 better practices covering each stage of the contracting process including over 30 real-world examples from Australia, Chile, Ghana, Lebanon, Mexico, etc.

Methodology for Assessing Procurement Systems (MAPS) was originally created by a joint initiative of the World Bank and DAC in 2003 and updated through a multi-stakeholder process (2015-2018) to match current public procurement challenges, such as e-procurement and sustainability.

U4's Anti-Corruption Resource Centre provides information on Procurement.

Hivos has produced an advocacy toolkit for opening up contracting.

The article 'New Perspectives on Corruption Reforms in the Electricity sectors of Kenya and Ghana' (Boamah, 2019) examines corruption reforms related to major investments in improving electricity access for citizens in Kenya and in Ghana, e. g. citing a success story driven by a series of fierce anti-corruption campaigns in a democratic governance setting which led to re-negotiations by the Ghanaian government mounting in savings around 51 million USD.

The World Bank report on "Global Procurement Partnership for Sustainable Development" shows how the role of public procurement can support broader policy goals such as environmental stewardship, resilient and inclusive economic development, and social protection. Furthermore, World Bank's Procurement Department helps partner countries ensure efficient use of public resources in Bank-financed projects and through reforms of countries' procurement systems.

Public Service Provision – Access to energy can be targeted by corruption on multiple levels, starting from the authorisation of new connections, service delivery, meter arrangement to billing and payment. This results in unequal access to power supply and economic advantages for selected households and companies. Forms of corruption are e. g. illegal grid connection, improper payments for repair, restoration, meter installation and reading, and under-, overcharging prices.

Resources for further reading:

UNDP has produced a practical guide that reviews social auditing worldwide and examines the conditions required for their design and implementation.

The paper "Corporate Social Responsibility and Corruption: Implications for the Sustainable Energy Sector" by Lu, J. et al. (2019) provides a list of main drivers.

U4 policy briefs on success and failures in the anti-corruption-related reforms in energy supply in Ghana and Kenya.

OGP has published an overview of how social audits of public service delivery and grievance redress mechanisms work, including evidence and case study of their impact.

Corruption Analysis

Given the complexity of the energy sector, including wide range of involved actors, and diverse risks of corruption, it is crucial to understand energy value chains to identify various gaps and opportunities for anti-corruption entry points. Following three complementary approaches are often employed: (i) Political Economy Analysis (PEA) includes stakeholder mapping and exploration of the structure as well as the 'rules of the game'; (ii) Systems Analysis covers the procedures and routines within a system to understand drivers and causal loops; (iii) Analysis of Social Norms and Perceptions, including gender, focuses on expectations and perceptions of what is acceptable behaviour.

Resources for further reading:

OECD public integrity maturity model – self-assessment tool for national and subnational governments and public sector organisations.

IMF website on Governance and Anti-Corruption provides further information and tools, e. g. the Governance Diagnostic Reports which are in-depth, country-tailored assessments of corruption and governance vulnerabilities that draw heavily on local knowledge and expertise, and provide recommendations. IMF also provides its Public Investment Management Assessment (PIMA) tool and handbook which is a framework to assess infrastructure governance practices, covering the complete public investment cycle in a comprehensive manner.

AUS administration's Good Practice on PEA, UK administration's Understanding PEA, UK AID's Beginner's Guide to PEA and USAID's Applied PEA, the Corruption, Justice and Legitimacy Program (tools and guides), general guidance is provided by USAID Anti-Corruption Assessment Handbook.

Example of PEA analysis in logging as an energy sector related branch illustrates the paper "How corruption threatens the forests of Ukraine: Typology and case studies on corruption and illegal logging" by Hrynyk, Y., et al. (Basel Institute on Governance, 2023).

An example of applied social norm analysis in natural resource management provides the paper "Understanding Corruption and Social Norms: A Case Study in Natural Resource Management" by Nash, R. et al. (RTI, 2023).

The paper "Corruption risk mitigation in energy sector: Issues and challenges" by Rimšaitė, L. (Elsevier, 2019) analyses the competition law and corruption risks relation in the energy sector.

GIZ's project on Tackling Corruption and Promoting Integrity provides further readings on how to implement anti-corruption and integrity in development cooperation more effectively.

U4 basics of corruption risk management, U4 Anti-corruption resource centre, and TI Anti-corruption Knowledge Hub provide a wide range of resources, e. g. U4 paper on Corruption in the construction of public infrastructure.

OGP published a guide with examples of actions to promote fiscal openness, as well as a more comprehensive overview of the concept and evidence of impact. Kickback-Global Anticorruption and Global Anticorruption Blog provide further information.

EU Tools

Based on Article 21 of the Treaty on the EU (TEU), as a priority in its external action the EU promotes human rights, democratic governance, the rule of law and the fight against corruption policies. More generally, in its external actions, the EU supports legal and policy reforms to build anti-corruption institutions as well as oversight bodies, and to strengthen civil society, human rights defenders, whistleblowers, and independent media as watchdogs against corruption. Any anti-corruption analysis can complement and be supported by existing EU tools, including **Conflict analysis** and EU early warning systems, **Gender analysis**, **Risk Management Framework**, **Budget support**, **Human Rights & Democracy country strategies**. Note also the recent EU **Handbook** of good practices in the fight against corruption as well as the **Joint Communication** on the fight against corruption. The European Commission made a new recommendation on involving citizens in policymaking in November 2023. For further information and thematic support, please contact the G1 team.