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Governance

**Addressing Corruption Risks
to Safeguard the Response
to Climate Change
DISCUSSION DRAFT II**

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Introduction

Investing in climate change mitigation, adaptation and resilience is going to require trillions in financing, as well as new regulations, new financing instruments, and new markets. The potential for corruption to undermine the effectiveness of the global response to climate change, distort decision making, and increase costs means that tackling corruption must be at the heart of the climate response. These risks are present in the global north and the global south. Where there are large money flows, as seen in renewable energy projects, climate mitigation funds or responses to climate emergencies, the risk for corruption is heightened and may already be a concern. Corruption also poses a critical barrier to effective climate action since vested interests can distort or undermine the design and implementation of key policies, or enable the embezzlement or misallocation of climate funds. In these contexts, and in countries where the capacity of oversight and accountability institutions to control corruption is low, attention to corruption risks needs to be an integral part of the design of climate response policies and financing solutions.

Failing to address corruption in the response to climate change will hinder the effective implementation and achievement of international, regional, and national instruments and commitments, among them, the United Nations Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol, the Paris Agreement, the Sustainable Development Goals (SDGs) and National Determined Contributions (NDCs). Further, corruption in climate funding erodes trust in governments and public trust in climate change policymaking. It also hinders private investments and can be used as an argument by high CO2 emitters to avoid flows of money to some of the more impacted countries, further exacerbating inequalities in the impacts of climate change on low-income countries. Closing the financing gap, and ensuring that climate financing achieves intended objectives require action on corruption.

The purpose of this note is to inform discussion among anticorruption and climate change policymakers and practitioners on the links between corruption and the response to climate change, and to direct attention to these links in a policymaking environment where multiple financing and environmental challenges are already vying for attention. It sets out some of the cross-cutting corruption risks and vulnerabilities in the response to climate change, focuses on a few core challenge areas, and identifies areas for further research. This note has benefited from discussion with and suggestions from numerous experts.¹ An earlier version of this discussion draft was shared at the 10th Session of the Conference of States Parties to the United Nations Convention Against Corruption (COSP10) in December 2023. This revised discussion draft provides (i) a brief overview of cross cutting corruption risks in the response to climate change, and then focuses on corruption risks associated with three key challenge areas: (ii) with the growing demand for energy; (iii) with the management of climate funds; (iv) and with the uncertainty of carbon markets. For each challenge area, specific vulnerabilities, corruption risks, illustrative examples, and opportunities for action are outlined. A final section suggests areas for further research.

Corruption in the response to climate change is a broad subject area. Corruption affects a wide range of activities in the extractive industries and in the spheres of environmental and biodiversity protection. This note does not touch on these topics which are extensively addressed elsewhere.² A number of other potentially relevant topics have been left out of scope – among them, for example, the management of critical minerals essential for facilitating the green transition. This note is intended to contribute in areas where vital attention and further research are needed. This note will be shared at the International Anticorruption Conference in Vilnius in June 2024 and further revised for final publication ahead of COP29 in November 2024. Suggestions for refining this note, for further research, and for additional thematic notes that would be useful area also being sought.

¹ Thanks to the individuals and organizations who provided feedback on the [first discussion](#) draft in the context of the COSP10 in December 2023, and who participated in the Expert Round Table in March 2024 hosted by the World Bank and UNODC. This includes representatives from (alphabetically): the Basel Institute; FACT Coalition; Green Climate Fund; CoST; NORAD; Resonance Global; TAI Collaborative; TRAFFIC; Transparency International, UNCAC Coalition, UNDP; Verra; WWF and other individuals from the TNRC Practitioners Forum.

² See, for example, the activities and resources of the Extractive Industries Transparency Initiative (EITI) (<https://eiti.org>) and of the Targeting Natural Resources Corruption (TNRC) Forum and website (<https://www.worldwildlife.org/pages/tnrc-countering-environmental-corruption-practitioners-forum>).

Cross-cutting corruption risks

A corruption risk is the potential for a corrupt act to occur³ as a consequence of identifiable weaknesses within a system or institution. Table 1 provides a non-exhaustive list of cross-cutting corruption risks associated with the three challenge areas covered in this note. Consideration of these risks is necessary when designing, adopting and implementing climate response measures in these challenge areas.

Table 1. Cross-cutting Corruption Risks in the Response to Climate Change

| Vulnerability | Corruption risk |
|---|--|
| Urgency | Governments may relax controls to speed the response to mitigate and adapt to climate change. Furthermore, climate related mechanisms and systems may be rolled out quickly without yet having introduced sufficient controls. Balance needs to be found between accelerating action and lowering controls. |
| Influx of large money flows | Significant sums are being invested globally in climate resilience and the green transition. Between USD5-7 trillion annual investments will be required to greening the global economy by 2030 ⁴ creating opportunities for embezzlement when oversight mechanisms are not in place. |
| Highly technical | The highly technical nature of innovations and new technologies used in energy-efficient infrastructure, for example, can be opaque to policymakers and provide opportunities for overpricing, distortions, misallocation of funds, etc. |
| Development disparities associated with governance challenges | Due to their geographies, developing countries bear the responsibility of safeguarding many of the worlds' existing carbon sinks. Many of these countries also face development challenges such as low human capital outcomes in health and education, poor land management policies, inequality in access to opportunities, lack of voice for minorities, and low capacity governance institutions at the state and local levels. These factors facilitate corrupt practices, whether in the form of administrative corruption or capture by political elites. The consequences for local communities can include dispossession of their lands and incomes for commercial profit and personal gain. |
| Collective action problems | Designing and implementing climate change mitigation and adaptation solutions typically involves multiple actors, who might be located in different places (or countries and continents). This can involve a mix of market-based and community-oriented solutions (such as, for example, some carbon offset initiatives). Regulation and oversight are particularly challenging in these contexts. And where innovative approaches are being tried we may have little evidence on what constitutes an effective control. There is a call for decision-making processes around climate change to promote the active participation of relevant public institutions, private actors, civil society organizations, and academic experts, to ensure proper representation of the interests of affected parties in policymaking. This also needs to include accountability in the enforcement of rules and regulations. Poor access to information about climate tagged expenditures heightens the risk of corruption as it enables public officials to take decisions on the basis of personal rather than public interest. |

³ UNODC, State of Integrity: A guide on conducting corruption risk assessments in public organizations, 2020 (https://www.unodc.org/documents/corruption/Publications/2020/State_of_Integrity_EN.pdf)

⁴ UAE Leader's Declaration on Global Climate Finance Framework (https://www.cop28.com/en/climate_finance_framework)

CHALLENGE 1: THE GROWING DEMAND FOR ENERGY

The world is experiencing two concurrent transformations: phasing out the use of fossil fuels and phasing in the use of green energy. Both present risks of corruption.

Historically, as population and industrialization has grown, so has the demand for energy. Currently, energy production is the primary contributor to global emissions, with fossil fuels- including coal, oil, and gas – accounting for over 75 percent of global greenhouse gas emissions.⁵ Thus, the transition away from fossil fuels to cleaner energy sources is a pivotal component in the battle against climate change. A substantial portion of climate finance is being allocated to the green transition within energy production, through methods like direct investments, loans, or climate subsidies. Corruption can manifest in various forms, such as distorting regulations, market capture, bribery and kickbacks during project development, misappropriation of funds earmarked for clean energy initiatives, covering up environmental and other violations to expedite project approvals, fraudulent allocation of climate subsidies, and favouritism in awarding contracts. The ramifications of such corruption are far-reaching, eroding public trust, driving up costs, hindering and distorting the growth of the clean energy sector, and, critically, sabotaging global efforts against climate change. While significant amounts of climate finance have already been invested in renewable energy the ongoing expansion of financing to developing countries demands urgent attention to address corruption in clean energy projects.

Phasing-out fossil fuels

The global fossil fuel industry has been the dominant source of energy for decades.⁶ In 2021, governments committed to phasing down coal power and phasing out inefficient fossil fuel subsidies but no reference to oil and gas or the production of fossil fuels has been made.^{7,8} According to the Production Gap Report 2023, by 2030, “governments plan to produce around 110% more fossil fuels than would be consistent with limiting warming to 1.5°C (i.e. more than double), and 69% more than would be consistent with limiting warming to 2°C.”⁹ The effective phasing out of fossil fuels will also require extensive investments in decommissioning existing infrastructure, with associated risks of rent-seeking and corruption-enabled risks to safety and environmental degradation. Table 2 provides a non-exhaustive list of vulnerabilities and corruption risks linked to phasing-out fossil fuels and suggests some opportunities for action by governments and the international development community.

5 United Nations, Renewable energy- powering a safer future (<https://www.un.org/en/climatechange/raising-ambition/renewable-energy>)

6 IEA, World Energy Outlook 2023, IEA, Paris (<https://www.iea.org/reports/world-energy-outlook-2023>)

7 Stockholm Environment Institute, Climate Analytics, E3G, International Institute for Sustainable Development and United Nations Environment Programme, The Production Gap: Phasing down or phasing up? Top fossil fuel producers plan even more extraction despite climate promises, 2023.

8 United Nations Climate Change, End of coal in sight of COP26, 2021 (<https://unfccc.int/news/end-of-coal-in-sight-at-cop26>)

9 Stockholm Environment Institute, The Production Gap.

Table 2. Examples of Corruption Risks in Phasing out Fossil Fuels and Opportunities for Action

| Issue | Vulnerability | Example of corruption risk |
|----------------------------------|--|--|
| Economic and political influence | The fossil fuel industry is highly profitable, with significant economic impacts including job creation, tax revenue, and extensive infrastructure investments. | Irregular lobbying efforts may delay the implementation of large-scale measures for a rapid global phase-out of fossil fuels. Companies might unduly influence energy decisions or laws, resulting in weak commitments to reduce production. |
| Discretionary power | A limited number of individuals hold discretionary decision-making power over energy production/sources and natural resources. | Government officials may award energy contracts to relatives, companies they control or to counterparts offering bribes, potentially leading to higher costs and reduced climate benefits. |
| State-Owned Enterprises (SOEs) | SOEs operate in various commercial activities within carbon-intensive sectors like petroleum and play significant roles in their countries' economies. ¹⁰ | SOEs may be co-opted to serve political interests, disregarding international phase-out commitments and NDCs. |
| Transparency and accountability | There is low transparency in the development and implementation of national plans, projections, and support for fossil fuel production, and how they align with climate goals. ¹¹ | Lack of transparency can lead to corrupt practices such as embezzlement of funds, misreporting of data, and opaque allocation of resources. |
| Transition challenges | Surging energy needs cannot be met by renewable energy alone, requiring a balanced and transparent transition strategy. ¹² | The rush to meet energy demands can result in compromised regulatory standards and oversight, allowing for corrupt practices to flourish unchecked. |

OPPORTUNITIES FOR ACTION

The necessary changes to phase-out fossil fuels represent opportunities to strengthen existing anticorruption and accountability efforts or introduce new controls. The suggestions below are intended to inform further discussion.

- Increase transparency around activities and interest groups influencing policies and decision-making to ensure these are conducted ethically. See for example, the [Transparency Register of the European Union](#).
- Promote transparency in the policymaking processes concerning phasing out of fossil fuels to promote accountability and public trust.
- Prevent and manage conflicts of interest in the extractives industries and the public sector and scale up the adoption of beneficial ownership transparency in the extractives.
- Build the capacity of accountability institutions, including supreme audit institutions in their oversight of NDCs and fossil fuel policies to ensure the integrity of climate responses.
- Support investments in the capacity of SOEs operating in carbon-intensive sectors to strengthen their public financial management and procurement capabilities, enhancing their ability to trade and market their assets, and conduct due diligence, compliance, and risk management during the negotiation, trade, and sale of assets.¹³

10 De Kleine Feige, Annette I., State-Owned Enterprises and Climate Action, World Bank (<https://state-owned-enterprises.worldbank.org/sites/soe/files/reports/State-Owned%20Enterprises%20and%20Climate%20Action.pdf>)

11 Stockholm Environment Institute, The Production Gap.

12 World Bank, Report: Universal access to sustainable energy will remain elusive without addressing inequalities, Press release June 7, 2021 (<https://www.worldbank.org/en/news/press-release/2021/06/07/report-universal-access-to-sustainable-energy-will-remain-elusive-without-addressing-inequalities>)

13 OECD, Policy Guidance on Mitigating the Risks of Illicit Financial Flows in Oil Commodity Trading: Enabling Integrity in the Energy Transition, 2023.

Phasing in the use of green energy

Investments in renewable energy (including both power generating and end-uses) reached USD 0.5 trillion in 2022.¹⁴ The 28th Conference of the Parties (COP28) to the UNFCCC not only agreed to transition away from fossil fuels but also to triple renewable power and double energy efficiency by 2030. Corruption and fraud in renewable energy projects jeopardizes the integrity and effectiveness of initiatives to transition to sustainable energy sources. The ramifications of such corruption are far-reaching, driving up costs, hindering and distorting the growth of the clean energy sector, introducing economic inefficiencies, and undermining climate benefits. Table 3 provides a non-exhaustive list of vulnerabilities and corruption risks specific to this challenge, as well as potential opportunities for action by governments and the international development community.

Table 3. Examples of Corruption Risks in the Green Energy Transition and Opportunities for Action

| Issue | Vulnerability | Example of corruption risk |
|--|---|---|
| Niche technical expertise required | Sector's complexity and rapid technological advancements make regulatory and spending oversight a challenge for policymakers. Need for governments to design and implement Green Public Procurement policies. | Distortion of costs in the public investment procurement or public investment management; contract steering to favored suppliers; misappropriation of funds earmarked for clean energy initiatives. See Box I for an example. |
| Low investment | Shortfalls in clean energy investment. ¹⁵ | Undue influence to delay the introduction of subsidies for renewable energy sources. |
| Increasing demand | Competition to rapidly address the rising global energy demand. Difficulty for existing and new market players to meet or comply with net zero and new green public procurement standards. | Improper allocation of climate subsidies; distortion of procurement regulations to favour certain players; payment of bribes or exchange of favours to steer contracts, or inadequate controls allowing market captures. |
| OPPORTUNITIES FOR ACTION | | |
| <p>The investments and reforms needed to transition to renewable energy sources provide opportunities to strengthen existing anticorruption and accountability mechanisms or introduce new controls. The suggestions below are intended to inform further discussion.</p> <ul style="list-style-type: none"> • Support public authorities with the implementation of Green public procurement policies, and raise awareness among firms and oversight bodies. • Support adoption of transparent public procurement processes including environmental considerations and standards, to enable oversight by public authorities, and civil society. See for example Australia's Sustainable Procurement Guide, Open Contracting Partnership, CO2 Performance Ladder. • Support for the disclosure and public access to beneficial ownership information in public procurement. See for example Open Ownership beneficial ownership records. • Identify the strengths and weaknesses of public sector institutions for addressing climate change governance challenges. See for example the World Bank's Climate Change Institutional Assessment (CCIA). | | |

¹⁴ International Renewable Energy Agency, World Energy Transitions Outlook, 2023 (<https://www.irena.org/Digital-Report/World-Energy-Transitions-Outlook-2023>)

¹⁵ IEA, World Energy Investment 2023 (<https://www.iea.org/news/clean-energy-investment-is-extending-its-lead-over-fossil-fuels-boosted-by-energy-security-strengths>)

BOX I.

Bribery in the private sector: Company solicited and received kickbacks to inflate prices of energy saving projects

A company providing electricity solutions was required to pay USD 11 million to resolve criminal and civil investigations relating to kickbacks and overcharges on eight federally funded energy savings projects in the U.S. The company was hired by the government to install a variety of energy savings upgrades, such as solar panels and energy efficient lighting, in federal buildings. Preliminary construction estimates presented to the U.S government initially hid costs that were later charged by the company. The company also admitted that a former Senior Project Manager solicited and received over USD 2.5 million in kickbacks from various subcontractors linked to the projects ordered by the U.S. government. The bribery is supposed to have taken place between 2011 and 2016, in connection with six energy savings projects.

Source:

Office of Public Affairs, U.S. Department of Justice, Government Contractor Admits Scheme to Inflate Costs on Federal Projects and Pays \$11 Million to Resolve Criminal and Civil Probes, Press release, December 2020 (<https://www.justice.gov/opa/pr/government-contractor-admits-scheme-inflate-costs-federal-projects-and-pays-11-million>)
Settlement agreement between the United States of America and Schneider Electric Buildings Americas, Inc. (<https://www.justice.gov/opa/press-release/file/1347446/dl>)

CHALLENGE 2: THE MANAGEMENT OF CLIMATE FUNDS

Climate finance is a specialized form of funding designed to tackle the challenges of climate change. It encompasses local, national, and transnational financing - drawn from public, private and alternative sources of financing – that support mitigation and adaptation actions that will address climate change and enhance resilience to climate impacts¹⁶ **Climate funds** refer to the specific financial instruments (including stocks, bonds, etc.), grants or pools of money set up to channel climate finance towards particular goals or projects.¹⁷

Climate funds can be financed by the public or private sector, or a mix of both, each playing a role in driving the transition to a low-carbon and climate-resilient future. Currently, climate financing in developing countries mainly stems from public sources. To close the financing gap and accelerate climate mitigation and adaptation activities in low income countries, private financing needs to be encouraged.¹⁸ However, the perception of corruption risks undermines private sector confidence¹⁹ in climate finance, preventing flows of money to countries with lower capacity institutions and weaker governance. Corruption is a barrier both to raising funds and to their effective use to adapt to and mitigate the effects of climate change.

Addressing corruption risks in climate finance has two benefits. For public and private financing, it ensures the effective use of funds and prevents embezzlement. For the private sector, mitigating corruption risks can translate into fostering higher private investments.

16 United Nations Climate Change, Introduction to climate finance (<https://unfccc.int/topics/introduction-to-climate-finance>)

17 Ibid

18 See details of climate financing for developing countries: OECD, Climate action in developing countries for 2013-2022 (<https://www.oecd.org/climate-change/finance-usd-100-billion-goal/#:~:text=Released%20on%2029%20May%202024,goal%20for%20the%20first%20time>)

19 See details of climate financing for developing countries: OECD, Climate action in developing countries for 2013-2022 (<https://www.oecd.org/climate-change/finance-usd-100-billion-goal/#:~:text=Released%20on%2029%20May%202024,goal%20for%20the%20first%20time>)
Norges Bank Investment Management, Anti-corruption (<https://www.nbim.no/en/responsible-investment/our-expectations/society/anti-corruption/>)

Figure 1. Effect of corruption on private and public finance

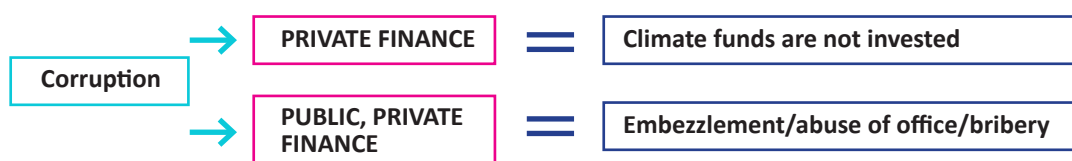


Table 4 provides examples of some of the vulnerabilities that may increase corruption risks in the deployment and management of climate funds, as well as potential opportunities for action by governments and the international development community.

Table 4. Examples of Corruption Risks in the Management of Climate Funds and Opportunities for Action

| Issue | Vulnerability | Example of corruption risk |
|---|--|---|
| Public investment management weaknesses | Climate funds are linked to significant public expenditures and public project financing. Weaknesses in PIM controls contribute to corruption risks. | Misallocation or embezzlement of public funds. See the case in Box II as an example. |
| Oversight and accountability | Lack of or poorly executed budgetary mechanisms for Climate Budget Tagging and absence of ex post audits. Lack of attention to or inadequate oversight and accountability mechanisms. | There might be weak linkages between public expenditures, climate projects and climate benefits. Weak supervision and oversight, and poor tracking of results create a risk of improper use of funds. |
| Transparency | Lack of clarity and transparency in the delineation of activities eligible for climate funding, and the criteria for application. | Lack of clarity and transparency about the eligibility, reporting, and oversight arrangements for climate funds undermines accountability and enables corruption to flourish. |

OPPORTUNITIES FOR ACTION

The suggestions below are intended to inform further discussion.

- Introduce or strengthen Climate Budget Tagging and enhance accountability of climate related public financial management. See for guidance, PEFA’s [Supplementary Framework for Assessing Climate-Responsive Financial Management](#).
- Adopt and implement regulations to enhance and standardize climate-related disclosures by public companies. See for example, the [Rules of the U.S. Securities and Exchange Commission](#).
- Mainstream the adoption of ethics and integrity standards in the management of climate funds. See for example, the role of the [Independent Integrity Unit \(IIU\) of the Green Climate Fund](#).
- Specify governance, accountability and transparency mechanisms in the framework legislation governing the structure and use of climate funds. See for Guidance: the [World Bank’s Reference Guide to Climate Change Framework Legislation](#) (See Element 12: Oversight).
- Support the involvement of civil society, including the protection of investigative journalists in the oversight of climate funds. See for example, the [Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean](#).
- Implement mechanisms that allow for funds recovered from breaches of climate regulations or corrupt acts to be used to compensate the damage and benefit most affected communities. Measures to classify environmental crimes as a predicate offense for money laundering could aid in these efforts.

BOX II.

Corruption and misappropriation of climate funds in Malaysia

Malaysia's former prime minister was convicted for misappropriating millions from the national development fund including climate change mitigation efforts. The High Court found the former Prime Minister guilty on all counts brought against him – abuse of power, money laundering and criminal breach of trust – it relates to USD 10 million of funds which were deposited into the former prime ministers' accounts from a former unit of the development fund.

Source: Federal Court of Malaysia, 05(L)-(289-291)-12/2021 ([https://www.kehakiman.gov.my/sites/default/files/documents/Ringkasan_Media/2022/Grounds%20of%20Judgment%20-%20Dato%27%20Sri%20Najib%20v%20PP%20\(Appeals\)%20\(23.8.2022\).pdf](https://www.kehakiman.gov.my/sites/default/files/documents/Ringkasan_Media/2022/Grounds%20of%20Judgment%20-%20Dato%27%20Sri%20Najib%20v%20PP%20(Appeals)%20(23.8.2022).pdf))

CHALLENGE 3: THE UNCERTAINTY OF CARBON MARKETS

Carbon markets are a component of climate finance. They are a carbon pricing mechanism enabling governments and non-state actors to trade greenhouse gas emission credits, to support the global goal of reducing greenhouse gas emissions. There are two types of carbon market: compliance and voluntary (see Figure 2). Compliance carbon markets are rooted in legal frameworks such as Article 6.4 of the Paris Agreement. These markets are designed to help countries meet their Nationally Determined Contributions (NDCs) for greenhouse gas reductions and comply with regulatory requirements and legal obligations. Monitoring and evaluation in compliance markets are performed by public regulatory authorities, designed to ensure stringent verification and compliance. Examples of compliance markets include the EU Emissions Trading System (EU ETS) and the California Cap-and-Trade Program. Voluntary carbon markets are decentralized markets that enable private entities to buy and sell carbon credits to voluntarily offset their carbon footprint. Voluntary carbon markets support the corporate sustainability goals outlined in Article 6.8 of the Paris Agreement. These markets are monitored by third-party private entities, such as certification companies, whose role it is to ensure the credibility of the offsets.

Figure 2: Comparison of Compliance and Voluntary Carbon Markets

| Topic | Compliance carbon markets | Voluntary carbon markets |
|---------------------------|---|--|
| Regulatory oversight | Markets regulated by laws. | Markets where private entities voluntarily purchase carbon credits. |
| Legal basis | Art. 6.4 of the Paris Agreement. | Art. 6.8 of the Paris Agreement. |
| Purpose | Contributing to NDCs, regulatory requirements, legal obligations. | Voluntarily offset carbon footprint, contribute to corporate sustainability goals. |
| Monitoring and evaluation | Verification and compliance monitoring by public regulatory authorities. | Verified by third-party private entities (certification companies). |
| Example | EU Emissions Trading System (EU ETS) , California Cap-and-Trade Program . | Verified Carbon Standard (VCS) , South Pole |

Both kinds of carbon market present vulnerabilities and corruption risks, examples of which are presented in Table 5 along with opportunities for action by governments, the private sector and the international community.

Table 5. Examples of Corruption Risks in Carbon Markets and Opportunities for Action

| Issue | Vulnerability | Example of corruption risk |
|---|---|--|
| Unclear requirements of voluntary carbon market | Insufficient regulation and oversight for developers of carbon offset projects; unclear requirements for projects creating carbon credits. | Interest groups may exert undue influence to avoid any regulation of the carbon market; call for lax regulation that favours their interests. |
| Lack of regulation of certifiers and weak oversight of voluntary carbon market | Lack of regulation concerning certifiers of carbon offset projects; all actors in the carbon credit ecosystem benefit from issuing more credits, irrespective of quality; lack of regulatory response to offset projects where credits have been issued but projects have later failed to achieve their objectives undermining the value of the carbon credits that they have sold. | Bribery in the private sector: companies might collude to claim environmental compliance deceitfully as they misinterpret or exaggerate emissions reductions. See Box III. Deforestation offset benefits (for e.g,) may not accrue to target communities. Limited accountability when issues are raised. |
| Lack of standardization of Compliance carbon market | Different measurement methods used for project outcomes. | Government officials who manage the registration and issuance of carbon credits may be compromised to issue false credits. |
| Abstract nature of carbon markets | Carbon markets trade in an abstract commodity (absence of emissions per tonne of carbon) which makes it difficult to accurately quantify the volume of the emissions avoided or calculate the true environmental impact of a damage avoided. The metrics for measuring reductions in emissions are complex and often inconsistent and the value of a tonne of carbon varies. | Environmental benefits claimed may be spurious. Public and private entities may engage in corrupt practices to foster the development of research in their favour to overstate emissions reduction. |
| Lack of verifiability of results in compliance and voluntary carbon market | Difficulty in measuring project outcomes and ensuring carbon benefits of offset projects that promise to avoid a certain activity, such as deforestation. | Bribery of public officials or private entities to misreport on the success of offset projects regardless of negative scientific evidence. |
| Non permanence of mitigation benefits claimed | Non-permanence: mitigation outcomes of carbon credits are reversed at a later point in time. | Undue influence of public officials to overlook non-permanence of carbon credits. |
| Absence of regulations tailored to fraud and corruption risks in carbon markets and climate financed activities | Absence of specific laws or sanctions addressing “greenwashing” fraud, for example. Or the trading of carbon credits where beneficiary communities have been defrauded. | Impunity for individuals and private entities engaging in these activities. Lack of a deterrent to help prevent them. |

OPPORTUNITIES FOR ACTION

The suggestions below are intended to inform further discussion.

- Develop robust regulations for compliance and voluntary carbon markets, grounded in scientific evidence and cooperative efforts with the private sector, ensuring that communities most vulnerable to the consequences of climate change reap tangible benefits. See for example, [Kenya’s Climate Change Bill](#) which includes regulation of carbon markets.
- Cross-border cooperation in standard setting is essential for the voluntary carbon market, as carbon credits are issued and sold internationally, as emphasized by statements from regulatory bodies such as the U.S. Securities and Exchange Commission regarding the need for robust accountability to emissions disclosure and the use of carbon offsets when proclaiming “net-zero”. 18
- Encourage collaboration across sectors to prevent the creation of isolated operational frameworks and to guarantee effective carbon offset.
- Introduce oversight regulations or guidelines to enhance carbon market integrity and effectiveness.
- Strengthen corruption reporting mechanisms and whistle-blower protection.
- Regulate and enforce “greenwashing” standards and associated fraud offenses and embed in private sector compliance programmes.

BOX III.

Carbon offset certifier ends agreement with Reduced Emissions from Deforestation and Degradation (REDD+) project after mismanagement allegations

In October 2023, South Pole- a carbon offset certifier company, terminated its contract with Carbon Green Investments, the owner and developer of the Kariba REDD+ project in Zimbabwe, one of the world's largest carbon offset projects in Zimbabwe after journalists reported over-issuance of credits. Nonetheless, in February of the same year South Pole had stated that each carbon credit from Kariba's first 10-year crediting period was legitimate and refuted "over-issuances" of verified carbon credits in this project.

Source:

South Pole, Fact check: Kariba REDD+ has not over-issued, nor will it ever over-issue, carbon credits – here is why, Press release, February 2023 (<https://www.southpole.com/news/fact-check-kariba-redd-has-not-over-issued-nor-will-ever-over-issue-carbon-credits-here-is-why>); South Pole, South Pole ends agreements with Carbon Green Investments (CGI), owner of Kariba REDD+ project, Press release, October 2023 (<https://www.southpole.com/news/statement-27october>)

General recommendations and need for additional research

This note has provided examples of corruption risks associated with each of the three challenge areas covered: with the growing demand for energy; with the management of climate funds; and with the uncertainty of carbon markets. Some suggestions for action by governments, the international community and the private sector are also provided. To address the cross-cutting risks for corruption in the response to climate change some broader action will be important. This would include the integration of anticorruption considerations into climate response planning and legislation, and the integration of climate related risks into national anticorruption strategies. This note is intended to help ignite and inform discussion around these processes.

There is also a need for further research, policy relevant insights, and evidence to help advance this agenda – on the interactions between corruption and climate change; on how to prioritize and scale up existing mechanisms to ensure accountability and anticorruption action keeps up with the pace of climate action; on what additional anticorruption reforms and investments would be helpful; and on how to ensure collective action and collaboration among the private sector and civil society in designing and implementing these solutions.

