DRAFT WORKING PAPER
Harnessing Business Inclusion Across Borders to Promote Integrity
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I. The Case for Centering Anti-Corruption in Climate Finance

The intersection of climate finance and good governance is now a central touch point in discussions of future global development. Climate finance, encompassing funding for both adaptation and mitigation efforts, plays a critical role for addressing the multifaced challenges posed by climate change. Given the scale of outflow anticipated and considering that this funding will flow disproportionately to countries with already weak performance on anti-corruption measures, how to ensure integrity in climate finance remains a critical question for policymakers and societies around the world.

Integrity in climate finance – meaning the adoption of and adherence to principles such as transparency, accountability, and prevention of corruption in financial flows directed toward climate-related initiatives – is crucial for several reasons. In the first instance, it offers a safeguard against mismanagement, fraud, and embezzlement, thereby ensuring that funds are allocated toward their intended goals, genuinely contributing to climate resilience. Secondly, integrity supports trust and investor confidence. Trust and confidence are essential components of the drive to mobilize funding for climate action, leading to delivery of public loans and aid, while at the same time encouraging greater participation from the private sector, thereby increasing foreign direct investment to accelerate the shift toward greener economies. Perhaps most importantly, integrity helps ensure that funding for climate responses does not have the unintended consequence of fueling poor governance. That is, that the considerable influx of funds does not inflame existing governance problems or contribute to the emergence of new corruption schemes or networks.

The green transition represents a new and burgeoning market, one that will be ripe for corruption. The OECD has noted that "increased engagement between government and business during the green transition heightens vulnerability to corruption risks" (OECD 2024).[1]
The need for climate finance is only expected to increase, and we should expect that illicit actors will be looking for enrichment opportunities as money pours in. This presents a real and grave risk, as the repercussions of absent or lacking integrity in climate finance can be profound and far reaching. In the most straightforward sense, funding can be captured, further entrenching existing corruption practices and networks. The effect of this is that existing efforts to combat corruption would face an even more difficult path to success. But the green transition is highly prone to germinating new corruption schemes and networks, in some cases intersecting with organized and environmental crime. And, because the green transition will be characterized by the international nature of the supply chain in this industry as well as the entrance of new market players, patterns of corruption may shift, creating risks that transcend national boundaries, involving multiple actor types, jurisdictions, and regulatory frameworks. What is predictable

[1] Anti-Corruption and Integrity Outlook 2004, OECD. https://www.oecd-ilibrary.org/sites/968587cd-en/index.html?itemId=/content/publication/968587cd-en&_csp_=9e6f26a44506d78b41d32bf5b491ea06&itemIGO=oecd&itemContentType=book

based on other new markets[2] is a context-driven combination of these two scenarios: where opportunity exists in any given geography, both expansion of existing patterns and development of new patterns will occur. The effects of this on governance within and across borders will be unpredictable, demanding adaptive anti-corruption strategies.

In short, funding for climate emergencies and resilience alike may not only fail to achieve its intended purpose but may have serious, detrimental long-term effects on governance both within and across countries, worsening an already weakening global governance picture. However, with attention to these risks and with thoughtful strategies toward their mitigation, climate investment can achieve a double dividend: achieving the aim of climate resilience and supporting good governance.

II. The Role of the Private Sector

Finance for both climate response and climate resilience will be shaped by the cultivation of new industries and the development of systems to facilitate this endeavor including regulatory frameworks, purchasing and supply patterns, and trade and investment partnerships. As investors seek to finance climate response and climate resilience, the private sector will be a primary agent for action. The business community, consisting of domestic and international corporations, small and medium enterprises, financial institutions, business associations, and other private sector entities, will have significant influence on the success of climate finance. Through their investments, joint operations, technical innovations, and operational practices, businesses, both domestic and foreign, will play a central role not only in specific climate responses and projects but more broadly in the transition toward climate-resilient economies. This transition is inherently international and regional. Renewable energy technologies often rely on a diverse array of components sourced globally, forming a complex supply chain spanning across countries. For example, solar panels may incorporate raw materials from one country, manufacturing in another, and installation expertise from yet another. How to appropriately cultivate a business environment for integrity, not only domestically but critically, across borders, is the central question. Practical, actionable recommendations are needed for policymakers, regulators, business directors, and international development institutions.

i. Spotlight Cases of the Role of Business in Promoting Integrity in Climate Finance

Three spotlight cases illustrate how the role of the business community is fundamental for integrity in climate finance and suggest concrete measures that could be taken to strengthen integrity. The first two cases, covering existing corruption scandals in Honduras and South Korea, identify measures that may contribute to preventing similar cases in the future. The final case, looking forward at corruption risks in the anticipated post-war reconstruction in Ukraine, considers how to prepare in advance for risks in a known context. Collectively, these cases – covering low-, middle-, and high-income countries, countries with either robust or embattled civil society, and both high and low corruption rankings – demonstrate that many challenges are in fact common.

[2] For a look at how illicit actors opportunistically respond to emerging market opportunities, I recommend Tuesday Reitano and Mark Shaw's 'Criminal Contagion: How Mafias, Gangsters, and Scammers Profit from a Pandemic', Hurst, 2021.

Case 1. The Renewable Energy Market in Honduras[3]

The development of the solar and hydroelectric industries in Honduras is a story of capture of the renewable energy market by local elites. What could have been a chance to create the clean energy infrastructure needed for economic growth was instead an accelerant for domestic corruption. But the development of the renewable energy market in Honduras was far from solely a domestic endeavor. It involved funding from international development institutions, high-value deals with foreign suppliers, and energy distribution partnerships with neighboring countries.

In this case, domestic institutions were instrumentalized to capture this emerging sector and award sweetheart deals. Coalianza, a commission facilitating public-private partnerships, channeled public funds for a burgeoning solar market into non-transparent contracts.[4] Then-president of Honduras, Juan Orlando Hernandez, who was later extradited[5] to the United States in 2022 on drug trafficking and money laundering charges, charges for which he was found guilty this year[6], wielded significant influence over Coalianza. This influence created conditions for personal direction and approval of projects, leading to off-budget expenditures and the potential award of tenders to cronies. Honduras's national electricity agency, the Empresa Nacional de Energia Electrica (ENEE), exemplifies institutional weaknesses, with senior positions reportedly filled by relatives of politicians. The Agency reportedly favored private, non-transparent producers with excessively generous terms in its awards of renewable energy contracts, leading to a transfer of both public funds and development aid to cronies, resulting in a strengthened domestic corruption network.[7]

Risks to international investors and firms were particularly visible in the revival of hydroelectric power plants. Despite fierce opposition from local communities and environmental experts, the Honduran government, with international financing, made plans to build hydroelectric dams on the Patuca and Gualcarque rivers. In 2011, Honduras contracted Sinohydro, a Chinese hydropower giant to build the dams (dubbing the projects Patuca III and Agua Zarca). After payment delays and challenges from local communities at the construction

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[3] For an in-depth look at this case, please see Sarah Chayes' 'When Corruption is the Operating System: The Case of Honduras', to which I contributed as researcher. Carnegie Endowment for International Peace, 2017, https://carnegieendowment.org/files/Chayes_ Corruption_Final_updated.pdf.

[4] Hugo Noe Pino and Brendan Halloran, "Honduras: The Fragility of Gains in Budget Transparency", International Budget Partnership, Oct 2016. https://internationalbudget.org/publications/fragility-of-gains-in-budget-transparency-honduras/

[5] Juan Orlando Hernandez, Former President of Honduras, Extradited to United States on Drug Trafficking and Firearms Charges, US Department of Justice, 21 April 2022. https://www.justice.gov/usao-sdny/pr/juan-orlando-hernandez-former-president-honduras-extradited-united-states-drug

[6] Colin Moynihan, Ex-Honduras President Found Guilty in Drug Trafficking Trial, New York Times, 8 March 2024. https://www.nytimes.com/2024/03/08/nyregion/juan-orlando-hernandez-honduras-guilty-verdict.html

[7] Fernando Maldonado, 'They File a Complaint against ENEE Officials for Corruption', El Heraldo, 20 October 2020. https://www.elheraldo.hn/honduras/interponen-denuncian-contra-funcionarios-de-la-enee-por-corrupcion-EYEH1416714. See also CNA Presents Case 'Luminaries of Corruption', 21 Jan 2020, La Prensa. https://www.laprensa.hn/honduras/cna-presenta-caso-luminarias-corrupcion-obscuridad-luces-led-jesus-mejia-enee-PDLP1350593

sites[8], Sinohydro eventually paused its contract, only completing the project in 2020, reflecting both the reputational and financial risks to international businesses, which may have imperfect knowledge of both local political networks and existing governance challenges. It likewise reflects the need for standards enforcement by international funders and regulators.

This case highlights common issues related to corruption and transparency in renewable market development in countries with low anti-corruption performance. Firstly, the absence of independent institutions and opaque contracting processes can facilitate corruption, enabling influential companies, potentially connected to local political elites, to secure contracts, reinforcing domestic corruption networks. Secondly, large-scale infrastructure projects often have significant environmental and social implications, and a lack of transparency and due diligence can obscure both the assessment and mitigation of these impacts, often with the primary detrimental effects borne by communities without social and political power. In the Honduras case, the corruption network's involvement in renewable energy projects fueled environmental conflicts, harm to local communities and livelihoods, and had devastating consequences for environmental rights defenders, including the murder of environmental defenders Tomás García and Berta Cáceres. Finally, and especially in countries with existing governance challenges, inadequate oversight creates opportunities for corruption to flourish unchecked, while weak investigatory and justice mechanisms fail to hold those involved accountable for their actions. These impacts did not end within Honduras' borders. The corruption risks in this case had regional implications as Honduran companies extended their energy investments into neighboring countries like El Salvador, Guatemala, Nicaragua, and Panama, expanding their purchase within the regional energy sector.

Top Risks	
Institutional Risks	- Lack of transparency in public tendering - Lack of public oversight in public-private partnerships - Weak institutional capacity for financial monitoring and auditing
Political risks	- Collusion between government officials and private sector actors to extract undue benefits - Political influence on institutions - Preferential treatment by government agencies and excessively generous contracts for politically connected private producers
Private Sector Risks	- Opaque contracting processes can facilitate corruption, enabling influential companies, potentially connected to local political elites, to secure contracts - Reputational risks for social impact heightened in cases with limited local knowledge - Information asymmetries for international investors; lack of information on local suppliers and partners

[8] Agua Zarca Dam Conflict in Honduras, no date, Climate Diplomacy. https://climate-diplomacy.org/case-studies/agua-zarca-dam-conflict-honduras

International and Regional Stakeholder Risks	- Misuse of international development financing - Inadequate regulation and oversight of international investments in energy projects

Case 2. Solar power in South Korea

The recent corruption revelations in South Korea's renewable energy sector serves as a reminder that even high-income countries with commendable performance on anti-corruption measures are not immune to integrity risks. Despite achieving its highest-ever ranking of 15th out of 119 countries globally in the 2023 Index of Public Integrity (IPI) released by the European Research Centre on Anti-Corruption and State-Building (ERCAS)[9] and being classified as 'very low risk' on the Bribery Risk Matrix produced by TRACE International[10], South Korea is now grappling with a scandal implicating even the highest public officials.

In this case, investigations uncovered extensive mismanagement and corruption in renewable energy projects initiated during the previous Moon Jae-in administration – with irregularities amounting to nearly $450 million between 2019 and 2021. [11] These irregularities reportedly included falsified documents, illegal loans to dubious entities (including entities falsely claiming to be agriculture facilities to qualify for loans), and inflated construction costs for solar panel installation. This case highlights the need for greater transparency and oversight over specific aspects of climate funding: supplier verification and technical review, fine-grained oversight in institutional lending, and faster identification of failures through independent review. South Korea's new administration is now engaged in a broad overhaul of how the country manages renewable energy projects, including stricter documentation, new sanctions, and measures to combat under-reporting.

This case underscores how the development of a new market becomes an attractive arena for deceptive behavior as firms seek to secure lucrative financial opportunities. This behavior has the added effect of subverting competition in the market, thereby additionally damaging responsible firms. It likewise highlights existing gaps in how governments review suppliers from a technical perspective. South Korea is the world's third top producer of solar power panels, and its companies have subsidiaries operating worldwide. This scandal could have implications for international partnerships and investments in South Korea's energy sector, potentially affecting regional energy initiatives and partnerships. Thus, this case reverberates beyond national borders, impacting international stakeholders.

Top Risks	
Institutional Risks	- Inadequate oversight by supervisory agencies responsible for renewable energy projects - Weak enforcement of regulations governing disbursement of government-backed loans and subsidies, allowing irregularities to go unchecked

[9] Republic of Korea 2023, Index of Public Transparency, European Research Centre for Anti-Corruption and State-Building. https://corruptionrisk.org/country/?country=KOR#integrity

[10] https://matrixbrowser.traceinternational.org/

[11] 'Probe finds more Moon-era corruption involving renewables', *Korea JoongAng Daily*, 3 July 2023, https://koreajoongangdaily.joins.com/2023/07/03/national/environment/Korea-renewable-energy-solar-panels/20230703160412807.html.

Private Sector Risks	- Unfair competition and distorted markets - Lack of verification of the legitimacy of suppliers and entities, leading to deceptive market entry
International and Regional Stakeholder Risks	- Potential trickle-down effects to worldwide subsidiaries - Potential supply chain impairments

Case 3. A Green Energy Transition at the Center of Ukraine's Reconstruction Plans[12]

As a central animating feature of its post-war reconstruction plans, Ukraine seeks to modernize and decarbonize its energy sector, not only to ensure its own economic future and energy security, but with a broader vision toward an export market that could supplant Russian fossil fuels on the continent. [13] The vision for reconstruction has a strong regional dimension, and corruption risks will arise not only within Ukraine but in neighboring European countries. For example, in recognition of Romania's early support, President Zelenskyy has encouraged Romanian construction firms to participate in reconstruction. The challenge will come in verifying whether the firm is truly Romanian (or simply registered through a shell company) and whether it is a legitimate firm. While Ukraine is a standout performer globally on anti-corruption tools like transparent public procurement and beneficial ownership, the same cannot be said about other geographies that will be involved in this process along the international supply chain.

An institutional environment that encourages foreign direct investment and promotes ethics in the industry is needed. Rather than creating time-limited agencies, Ukraine and its international partners should take a long-term view toward strengthening the overall market integrity ecosystem by administratively empowering and reinforcing the independence of existing institutions, such as the Ombudsman's office. To mitigate corruption risks, efforts within these institutions should focus on reducing administrative red tape, ensuring transparent permitting and tendering processes, and adopting uniform qualification standards.

While the initial stages of reconstruction will rely considerably on loans and aid, private investment will fuel the green transition. One key intervention involves promoting integrity through engaging private businesses to capitalize on expertise both from within Ukraine and among its international partners. Firms, both domestic and foreign, can contribute to reducing corruption risks through public and transparent input in areas such as the legitimacy of renewable energy suppliers. Research shows that collaborative initiatives, such as voluntary anti-corruption associations, can reinforce integrity by promoting pro-social behavior and ethical conduct.[14] A global voluntary initiative already exists for the extractive energy industry, the Extractive

[12] For an in-depth look at this case, please see: Katherine Wilkins, Reconstructing Ukraine: Context-Tailored Approaches to Corruption, Global Initiative against Transnational Organized Crime, 2023. https://globalinitiative.net/analysis/ukraine-conflict-reconstruction-corruption-risk/

[13] Presidential Administration of Ukraine, Ukraine will become a role model of reconstruction – President addressed the General Assembly of the International Bureau of Expositions regarding the holding of Expo 2030 in Odesa, 29 November 2022, https://www.president.gov.ua/en/news/ ukrayina-stane-vzircem-vidbudovi-prezident-zvernuvsya-do- gen-79513.

[14] Elizabeth Dávid-Barrett, Business unusual: Collective action against bribery in international business, *Crime, Law, and Social Change,* 71, 2 (2019), 151–170.

Industries Transparency Initiative, and calls for an EITI-like organization for the renewables sector are now gaining traction.[15] Ukraine, given its track record as a global pioneer of testing new anti-corruption strategies, would be an ideal candidate for piloting a global voluntary initiative for renewable energy industry transparency.

Top Risks	
Institutional Risks	- State capture of new industries, private interests set policy terms - Existing corruption networks within institutions in specific geographies expand their coverage into new ventures
Private Sector Risks	- Lack of verification of the legitimacy of suppliers and entities, leading to deceptive market entry - Involvement of politically exposed persons distorts markets and undermines the vision for industry development by securing non-competitive deals
International and Regional Stakeholder Risks	- Emergence of new corruption networks across borders - Proliferation of corruption schemes at the regional level

III. Responses

A first step to addressing integrity risks is to acknowledge where they exist and how they are enabled. The influx of funds for climate initiatives raises corruption risks, but managed thoughtfully, these risks can be mitigated. A comprehensive strategy can respond to three areas: Firstly, addressing absent information (on suppliers, politically exposed persons, and technical qualifications). Secondly, creating strong conditions for a culture of integrity. And thirdly, taking steps to reduce the considerable risk of expansion of existing corruption networks or creation of new networks by improving connections across local, regional, and international oversight functions.

Responses	
Addressing Transparency Gaps	- Transparent and competitive contracting, with integration of specialized sector expertise into the tendering process - Implement digital and analog measures to ensure the accuracy and authenticity of information provided by stakeholders – this might include peer review by foreign firms, increased staffing of institutions, technical red-flagging systems, or all of the above.

[15] Call to Action for the Renewable Energy Sector, 2023, EITI. https://eiti.org/call-action-renewable-energy-sector

	- Renew the push for beneficial ownership transparency and recruit the business community to this effort
Cultivating a culture of integrity	- Build relationships and foster a culture of cooperation and knowledge sharing among public and private stakeholders - Conduct regular audits and investigations to detect and deter corrupt practices - Create a voluntary initiative for renewable energy transparency
Connecting oversight across the local, regional, and international levels	- Empower institutional and regulatory independence and foster dialogue across institutions - Establish platforms for multi-stakeholder collaboration that include local civil society and investigative journalism

The common challenges identified above and highlighted in the three spotlight cases are driven by the risks of a new market characterized by cross-border connections. These features are also potential advantages which, when harnessed thoughtfully, provide avenues to ensure integrity. To do so requires thinking through how the private sector, as a primary agent among a wide range of stakeholders involved, can be strategically included in this effort.

Firms have the potential to promote integrity in climate finance through several avenues. Firstly, by adopting meaningful and robust corporate governance practices and adhering to ethical standards – not only through requirements by law but, promisingly, through voluntary initiatives. In doing so, firms can help prevent and flag corruption. Secondly, businesses can enhance both the public visibility and traceability of climate financial flows through transparency mechanisms, including but not limited to transparency along their supply chain, sustainability reporting, and disclosure of risks. To this end, business associations are an under-utilized potential partner for funders. Finally, businesses can support supplier and partner verification. Rather than rely solely on public oversight, the business community can play a role in peer review and verification – and not only domestically. International firms and business associations can be recruited into this process for a ‘many hands make light work’ effect. Climate financers can consider recruiting international firms for reviewing technical qualifications of tender participants, capitalizing on global third-party expertise, and potentially ameliorating some corruption risks at the domestic level.

Despite their indispensable technical, operational, and financial contributions, businesses also present risks for climate finance. These include aversions to compliance expenses, the desire for maintaining a competitive edge and willingness to engage in unfair practices to do so, or simply the difficulties of navigating integrity risks effectively, particularly in regions with low transparency, weak governance or entrenched corruption, and where the business may not have local contextual knowledge. Harnessing the business community does not mean only working with firms and corporations. It also means considering how to cultivate the ecosystem in which they operate. This does include regulation and enforcing standards for corporate behavior, but it also includes promoting measures that can attract investment. Scholarship exploring the nexus of trade openness, foreign direct investment and corruption levels suggests some positive pressures for integrity, particularly in middle- and high-income countries. The desire for foreign investment incentivizes governments to control corruption domestically, although this may not be the case in developing economies[16], where corruption is more likely to be systemic. Likewise, international institutions, regulators, and investors bring with them their own compliance mandates, creating pressure for reforms.[17] The market alone does not drive control of corruption; businesses must be incentivized financially, legally, and socially to uphold robust standards. As such, public institutions, watchdog agencies, civil society, and the public are also essential stakeholders for an effective strategy.

What Specific Stakeholders Can Do	
Private Corporations	- Prioritize genuine and transparent engagement with local communities - Adhere to international standards and impact assessment protocols - Conduct thorough due diligence on local suppliers and partners - Establish clear exit strategies to ensure accountability
Business Associations	- Advocate for industry-wide standards that promote ethical business practices and standards - Make the business case (more reliable partners, lower risk) for beneficial ownership and corporate records transparency - Promote standardized whistleblower protections - Provide resources and training to member companies on effective risk management - Sanction poor performing firms with de-listing
Regulators and Watchdogs	- Strengthen regulation and oversight of the renewable energy sector - Ensure staff with technical expertise to evaluate projects and/or collaborate with business associations as an extra check on technical qualifications (potentially in a publicly accessible, transparent peer review process to make use of specialized technical expertise within firms)
Lawmakers	- Set stronger standards for company ownership transparency - Enhance whistleblower protections - Enhance oversight capabilities within agencies responsible for awarding contracts and managing projects, including audits and regular reviews, and make reports publicly accessible

[16] Egger, Peter; Winner, Hannes (2006). How Corruption Influences Foreign Direct Investment: A Panel Data Study. Economic Development and Cultural Change, 54(2), 459–486. doi:10.1086/497010

[17] Susan Rose-Ackerman, *Corruption and Government: Causes, Consequences, and Reform,* Cambridge University Press, 1999.

	- Streamline and make openly transparent to the public all tendering processes and establish maximum % for single-bidder tenders
International and Regional Funders	- Exercise caution and evaluate whether and how financing is enabling or challenging existing corrupt practices - Precondition delivery of funding on integration of anti-corruption measures in advance, including true independence of oversight institutions - Conduct comprehensive due diligence, especially of political influence over national regulators - Strengthen oversight of investments in energy projects along the project cycle, and formalize a mechanism for engaging with independent local civil society and investigative journalists as part of ongoing monitoring - Maintain transparency in funding operations. The public should have access not only to contractual agreements but also decision-making processes, project reviews, and oversight reports
Civil society	- Develop cross-border initiatives among local civil society and investigative journalists to integrate local expertise on domestic patterns of corruption and politically exposed persons and firms - Build cooperation among domestic and foreign civil society watchdog groups
Communities	- Encourage public participation in major climate finance decisions - Provide accessible channels for reporting harm

IV. Outlook

There are three potential future scenarios for integrity in climate finance: adverse, status quo, and constructive. In the adverse scenario, efforts to combat corruption in falter, resulting in weakened climate resilience and considerably strengthened corruption networks. This will have negative long-term effects on global governance and serious consequences in geographies where corruption control is already weak. In a status quo scenario, corruption cases will continue, but remain the exception rather than the rule. In this scenario, existing governance problems are reinforced, and public trust and investor confidence in climate finance is damaged, leading to lower longer-term investment in the green transition. A constructive scenario will be one in which as integrity measures are strengthened, there can be a double dividend: not only is climate investment effective, but governance in the public interest is strengthened and overall market integrity and investment is increased.

There is cause for optimism that by centering anti-corruption as an animating principle of the vision for climate finance and by thinking strategically about inclusion of the business community within a wide tent of stakeholders, not only can corruption risks be better mitigated, but a culture of responsible investment can accelerate the green transition. This will contribute not only to efforts to address climate change but also to advancing sustainable development goals.