

Fourth International Conference on Financing for Development

Call for Inputs for an Elements Paper on Financing for Development

Introduction

The accelerated pace for advancing the decarbonisation of the energy production in the world, and the accompanying increase in the demand of several minerals has brought an important opportunity for the economic development of many resource-rich countries. However, the accelerated pace with which the energy transition is evolving brings multiple challenges for countries and the communities in the vicinity of extractive and energy projects. The race to develop mineral projects or the necessity to reduce the risk of leaving stranded assets can trigger corruption risks in the issuance of licenses and permits and increase the potential of negative environmental and social impacts. For many countries with vast oil and gas reserves, the energy transition can also mean a reduction of public revenue and less resources to address the needs of their populations.

A just energy transition needs strong governance mechanisms. Special attention needs to be given to financing the development of governance mechanisms that ensure the participation and engagement of the different stakeholders, a just distribution of revenues and benefits to the countries and communities hosting new energy and extractive projects, and to lay the foundation for sustainable development of the countries that receive substantial new inflows of investment.

The engagement of different stakeholders requires proper access to information. For this, it is essential that information covering the whole value chain is easily accessible, with data that can be analysed. Information should be the bases of a continuous public debate and analysis on the potential that the energy transition brings to countries and communities.

The EITI (Extractive Industries Transparency Initiative) is the global benchmark for transparency and accountability in the oil, gas, and mining sectors. As a framework for disclosure and multi-stakeholder oversight, the EITI Standard is designed to empower governments, industry and civil society to promote understanding of natural resource management; strengthen public and corporate governance and accountability; and provide the data to inform policymaking and debate.

What are the key financing policy reforms and solutions that the fourth International Conference on Financing for Development should deliver?

1. Finance policy reforms related to addressing corruption risks in the energy transition.

An urgent aspect of strengthening governance in the context of the energy transition is fighting corruption. Corruption reduces public revenue by deterring investment, perpetuates inequalities, creates an uneven ground for companies and investors increasing the cost of doing business, and erases trust between all stakeholders by fuelling perceptions that the extractive sector is not meeting the public interest.

A recent paper on the energy transition highlights the findings of a survey raised among 10 leading renewable energy companies regarding the corruption risks they face in the context of the energy transition. These are the lack of transparency in the beneficial owners of their partners, contractors and suppliers, opaque licensing and contract procedures, irregular practices for obtaining land concessions, conflict of interest related to public officials. (De Vibe and Robinson, 2024, p, 17). Moreover, given that the extractive sector requires large investments, criminal organisations are a constant threat for the development of extractive activities by engaging in a diverse range of illegal activities, from opaque licensing practices to money laundering.

Finance for development should focus on supporting policy reforms that strengthen the disclosure of information, provide access and training to the different stakeholders engaged in the energy transition to analyse that information and convey its content to the local communities that host energy projects. This should include policies that strengthen the role of supreme audit institutions in the analysis of public data, and a clear commitment by governments and state owned companies to disclose quality data according to international standards.

1.a. Strengthening national legal frameworks

A just energy transition requires strong anti-corruption mechanisms in place in all the countries that host energy and extractive projects, as well as in countries that host the companies that are engaged in the energy and extractive sectors. The EITI Standard is a powerful tool and guidance to have these mechanisms in place. For instance, the disclosure of information regarding the regulatory framework of licensing of extractive projects, licensing practices, full transparency of contracts (including all amendments), the full disclosure of beneficial owners of all companies that have or are applying for an extractive license or contract, and the full disclosure of tax payments and revenue received by the government.

The EITI Standard explicitly references addressing corruption as a core objective for certain data disclosures, including legal frameworks, licensing, contracts, beneficial ownership, production, exports, state participation, revenue collection and social expenditures. The 2023 EITI Standard now requires countries to disclose anti-corruption laws related to the extractive sector, empowering citizens to evaluate sector governance through an anti-corruption lens. Countries must also report if licensing and

contracting practices deviate from the law, and are encouraged to explain why certain methods for awarding licenses are used, especially in cases of fast-tracked approvals.

Additionally, the EITI Standard emphasises the importance of linking license information with beneficial ownership data to detect potential conflicts of interest in the award of licenses. To prevent loopholes in beneficial ownership disclosure, such as instances where companies deliberately split their shares to ensure these fall below the percentage of ownership covered by the reporting requirement, countries are encouraged to report the identities of beneficial owners holding stakes of 10% or lower in extractive companies.

Countries are also required to request full disclosure of the ownership interests of politically exposed persons (PEPs), regardless of their level of ownership, as well as disclosure of company structures. Such disclosures can help prevent PEPs from taking undue advantage of their positions to profit from mining projects. Recognising that many corruption cases involving state-owned enterprises (SOEs) are carried out through third parties, the EITI Standard encourages SOEs to disclose the beneficial owners of their agents or intermediaries.

The 2023 EITI Standard places heightened emphasis on contract transparency. In addition to disclosing main contracts and annexes, countries are now encouraged to disclose significant exploration contracts, agreements detailing the terms of the sale of the state's share of production or other in-kind revenues, and contracts outlining infrastructure and barter provisions, including resource-backed loan agreements.

Moreover, countries are expected to disclose contracts mandating social and environmental payments. Such disclosures provide citizens with a more comprehensive understanding of whether companies fulfil their contractual obligations beyond the stipulations in the main contracts.

b. Systematic disclosure of extractive and energy activities data to facilitate analysis,

Access to data is a major obstacle for public analysis and an informed public debate. Information access needs to evolve to meet further opportunities for analysing bigger and more detailed databases. Information needs to address national priorities and meet data users' needs. Finance for development should pay particular attention at strengthening mechanisms that facilitate the communication between communities and authorities regarding the data and information that communities need access to, the level of disclosure of these data as well as the perspectives that these data need to address, such as gender and marginalised communities.

In September 2024 the United Nations Secretary General's Panel on Critical Energy Transition Minerals issued its report *Resourcing the Energy Transition* with seven principles to guide the exploitation of critical transition minerals. Principle 6 clearly states that "Transparency, accountability and anti-corruption measures are necessary to ensure good governance".

One of the six actionable recommendations of this Panel is for “A global traceability, transparency and accountability framework along the entire mineral value chain – from mining to recycling – to strengthen due diligence, facilitate corporate accountability and build a global market for critical energy transition minerals, though the framework should not be used as a unilateral trade barrier”.

Principle 6 of the the United Nations Secretary General’s Panel on Critical Energy Transition Minerals stresses that “access to information is a human right. The availability and disclosure of transparent and accessible information is necessary for meaningful stakeholder engagement and participation, public accountability and equitable decision-making, as well as to reduce information asymmetry, combat corruption, and address human rights and environmental risks”. The implementation of the EITI Standard, with its multistakeholder groups (MSG), provides a strong platform for the continuous monitoring of the extractive sector, as well as for a public debate based on information needs from each of the different constituencies represented in it (civil society, industry and government).

c. Capacity building of national stakeholders on conventional and emerging risks brought about by the energy transition

Finance for development should give special attention to access and use of public data. Engaged stakeholders require access to data as well as tools and training to analyse it and to disclose and share those analysis with a wider audience. EITI implementation provides good examples of this. Several workshops and conferences that gather representatives from the more than 50 countries that implement the EITI are rich exchanges of perspectives, challenges and solutions based on publicly accessible data performed by experts with adequate tools to analyse information. Moreover, EITI Reports, published by the countries that implement the EITI Standard, as well as topic-specific analyses have contributed to relevant debates, leading in some cases to policy modifications, contract renegotiations, and better access to information from communities.

The disclosure of information can also bring to light another key aspect of the energy transition, the long-term viability of several projects that are under operation and even those that will begin its production cycle. Governments in resource-rich countries will face (and are facing already) uncertainty about the future revenue of declining projects. Moreover, the conclusion of extractive projects also poses important revenue considerations that need to be discussed and addressed, such as the closure of projects and the rehabilitation of the areas where the projects operated.

EITI implementation has increasingly focused on data access with a clear gender perspective. The EITI Standard requires that data on employment and the impact of extractive activities has a clear gender perspective, in order that the policies that come out of the recommendations by the MSG have also a clear gender perspective.

Finance for development should also give special attention to supporting multi-stakeholder engagement in the analysis of progress in the development goals and in the energy transition. Multistakeholder groups are a strong platform to maintain a continuous dialogue that strengthens trust-building, accountability and a shared responsibility in pursuing national priorities in the energy sector. The implementation of standards that have a basis on multistakeholder participation can also contribute to a robust disclosure of data together with inclusion and participation of a broader community.

How could the Conference strengthen the follow-up process, to ensure accountability to and full implementation of commitments made?

1. Support the institutionalisation of oversight mechanisms on energy transition risks in existing Anti-corruption bodies.

The participation of the communities that host extractive and energy projects is essential for ensuring a just transition. This requires a continuous and proficient disclosure of information by governments and companies regarding multiple aspects of their operations, and a continuous dialogue between companies and communities. The EITI Standard now requires that MSG discuss and analyse how the consultation processes have been followed in the issuance of licenses, and for companies and governments to disclose environmental impact information, in addition to the financial information referred to before.

This constant interaction can contribute to build trust between the different stakeholders, and for companies to embrace best practices in their regular operations. Moreover, this can also open spaces for communities and governments to discuss and disclose how revenue generated by extractive activities has benefitted the communities where the extractive projects are operating.

2. Strengthen the adoption of measurable indicators for the fulfillment of commitments and the adherence to international standards such as EITI.

Finance for development should consider supporting the design and adoption of measurable indicators that allow for multi-stakeholder groups and citizens in general to evaluate how commitments in the energy transition are being followed and observed. This should also include for spaces of regular oversight that allow for modifications on expectations and results. Standards such as the EITI allow for a clear process of measuring progress on the different Requirements of the Standard. This provides detailed information on specific aspects of the extractive and energy sector that allow stakeholders to identify clear corrective actions on certain priorities.

These indicators can also serve as a basis for comparison between the different countries and as a major source for peer-learning opportunities that feed into policy recommendations.