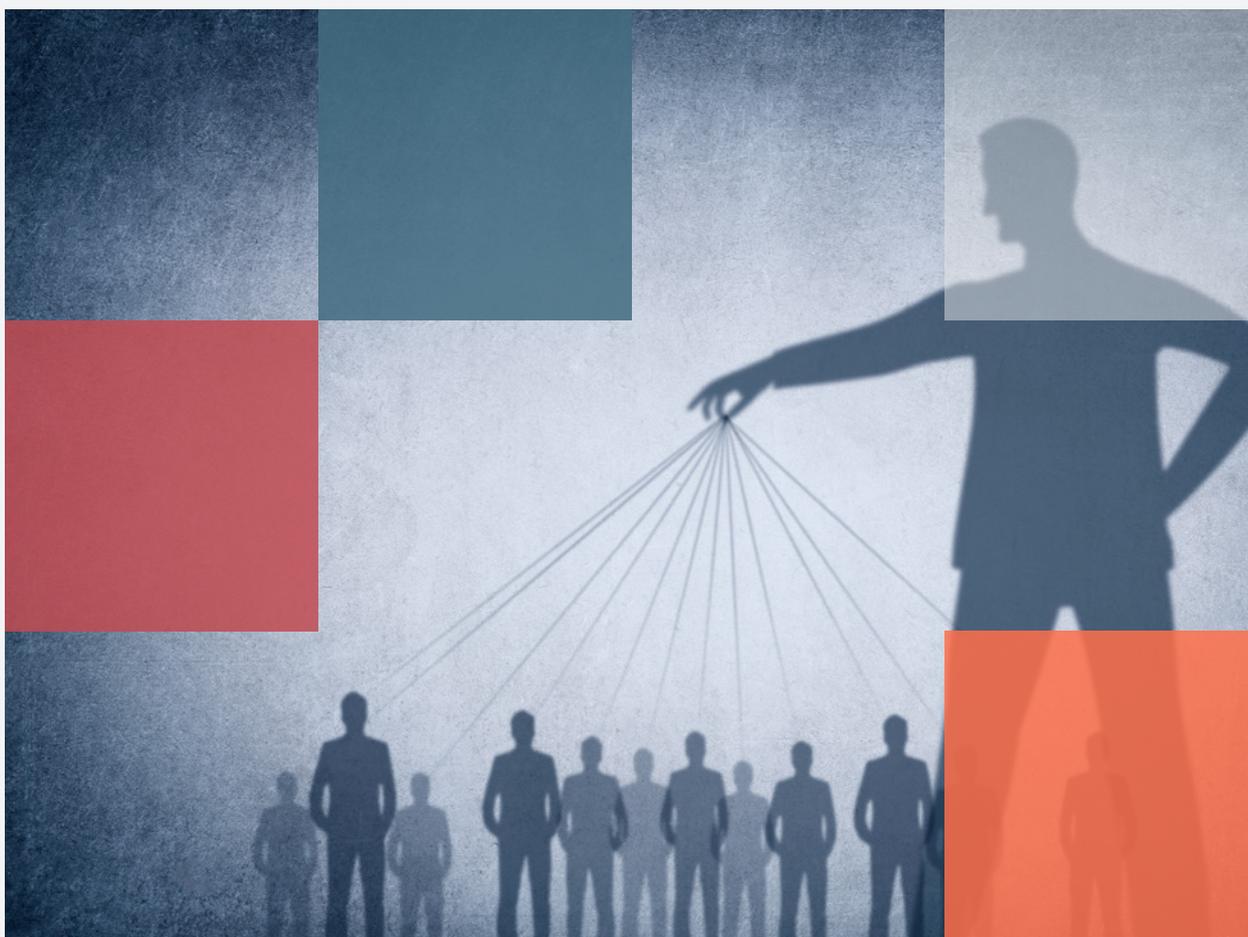




Preventing Corruption in Energy Transition Mineral Supply Chains

→ AN URGENT CALL FOR ACTION

Experts have issued an urgent call for reforms to tackle the pressing issue of corruption in transition mineral supply chains.¹



Corruption undermines key safeguards that protect local communities and the environment, redirects public money into private hands, and disrupts and delays production just when responsibly produced minerals are urgently needed to meet climate goals.

¹ These recommendations were developed by the Expert Group on Preventing Corruption in Transition Minerals, bringing together perspectives from civil society, governments, academia and international organizations. The development process was led by the Natural Resource Governance Institute (NRGI), with advice from the OECD Centre for Responsible Business Conduct and the Extractive Industries Transparency Initiative (EITI).

Recommendations

All stakeholders – including the governments of producer and consumer countries, companies across the supply chain, investors, international organizations and others working on climate change – should:



Act urgently—in months, not years—to implement stronger anticorruption measures, including in legislation and regulations, bilateral and multilateral partnerships, and trade agreements.



Reduce the use of agents and intermediaries as much as possible and adopt extensive controls for those that remain.



Explicitly identify corruption risks and develop mitigation plans in any energy transition mineral strategies, activities and operations.



Avoid enabling kleptocracy and state capture through mitigating corruption risks and discontinuing business relationships where needed.



Prevent corruption from weakening the protection of community rights and enforcement of environmental and social safeguards.



Support downstream supply chain actors to integrate checks of the above practices into responsible sourcing and due diligence systems.



Adopt and champion project-level contract, payment, commodity trading and beneficial ownership transparency in line with global standards to make it easier to detect corruption, particularly regarding high-risk entities such as state-owned enterprises (SOEs).



Support the rights and activities of civil society, journalists, whistleblowers and other anticorruption actors.



Prevent political elites from unfairly capturing opportunities.



Ensure consequences for corrupt actors through effective enforcement and accountability measures, with a focus on the victims of corruption throughout.

In addition, governments providing development assistance to mineral-producing countries should:



Increase linkages between economic governance and anticorruption prevention and response efforts in the transition minerals space.



Support rules, standards and norms on global transparency, integrity and accountability in the mining sector.



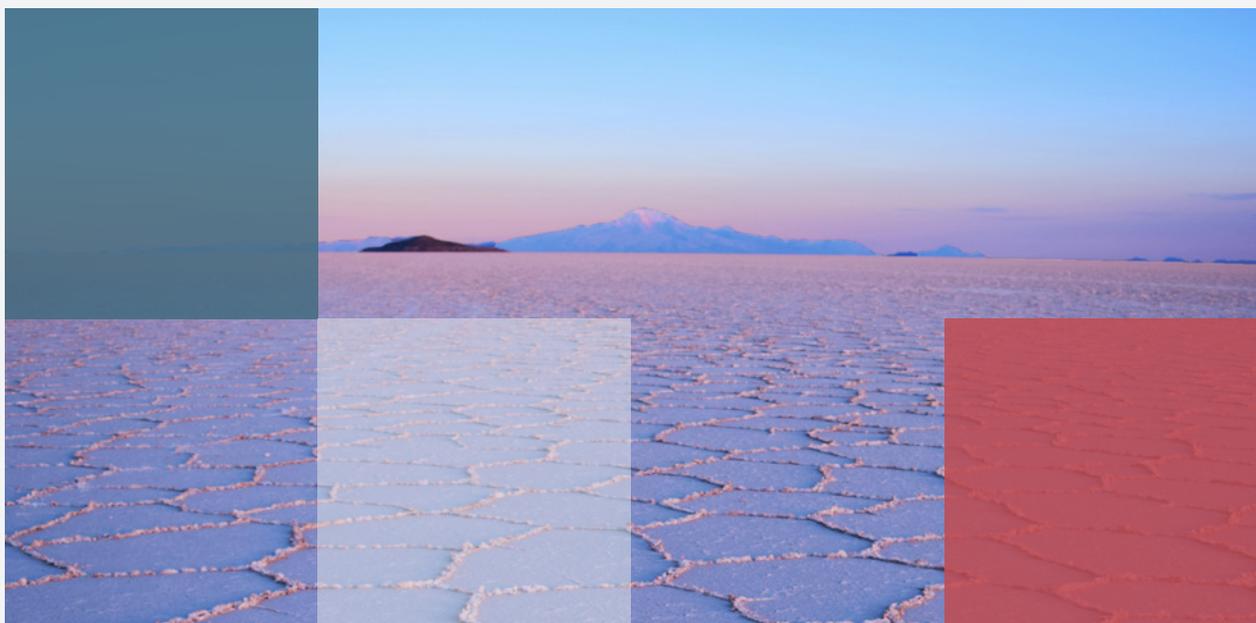
Fund activities to strengthen integrity along critical mineral supply chains, including as they cross borders.



Strictly apply anti-corruption measures, as set out in these core recommendations, as preconditions for project financing.



Leverage development assistance in the mining sector to connect the anticorruption agenda to opportunities for responsible investment in the sector.



Corruption in mineral supply chains threatens a just energy transition and risks derailing global efforts to fight climate change



The global fight against climate change relies on our ability to scale up low-carbon infrastructure, which requires more minerals than fossil-fuel-based systems.

The [International Energy Agency \(IEA\)](#) projects that meeting Paris Agreement goals will require a quadrupling by 2040 of demand for minerals used in technologies like solar panels, wind turbines and electric vehicles. For some minerals, the demand could even reach 30 times current levels by 2040 (see Figure 1). While circularity in supply chains warrants greater attention in the energy transition, recycled materials are insufficient to meet growing market demand. New mines will need to swing into production much faster than the current industry average of 16 years to meet oncoming demand, but this must not come at the price of environmental, social and governance (ESG) safeguards. Corruption will undermine the mining and metals sector's ability to meet this surging demand responsibly, if at all.

In turn, this could derail efforts to deploy low-carbon technologies at the speed and scale needed to tackle the climate crisis. As too many examples from around the world have shown, corruption can disrupt and delay responsible production, reduce the mining sector's contribution to sustainable development and public revenues, increase the risks of social and environmental harm, and undermine trust in governments and companies (see Box 1). Failure to address corruption in mineral supply chains can also slow and disrupt supply by deterring investment, nurturing arbitrary and unpredictable regulatory environments, and potentially exposing companies to long-term liability and sanctions.

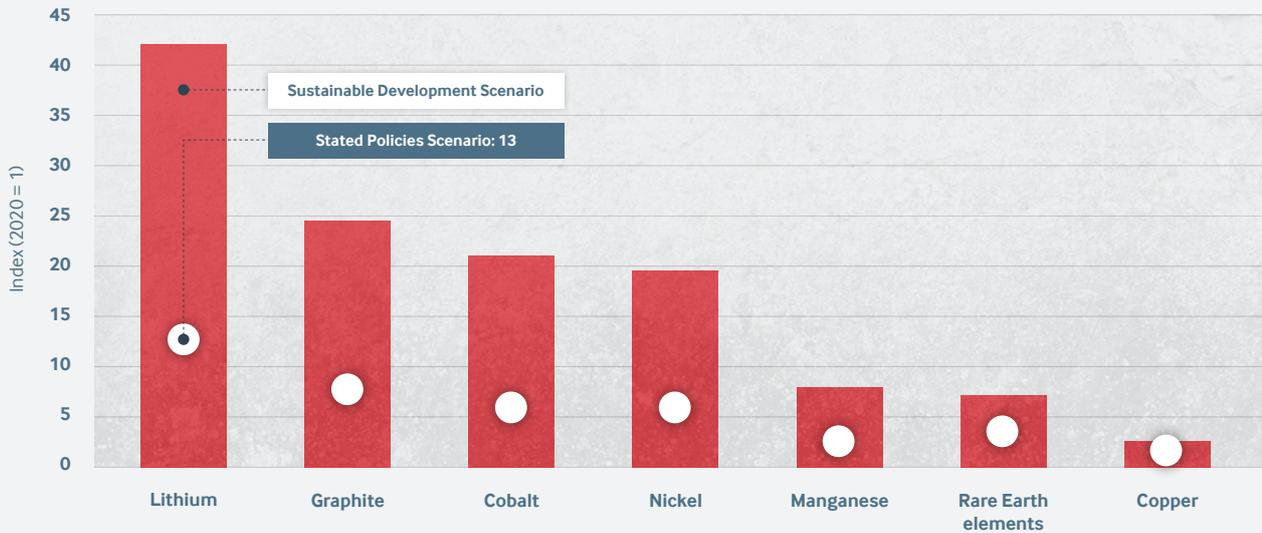


Figure 1. Projected growth in demand for selected minerals for clean energy technologies by 2040 relative to 2020. Source: [IEA](#).

Yet the risks of corruption are growing. Past commodity booms have unleashed large waves of corruption, and even the [anticipation](#) of a boom can incentivize problematic behavior. The promise of soaring profits and fast-paced deal-making increases the risk appetite of private- and public-sector actors alike, particularly where higher-risk entities like SOEs are involved. Many players in today’s transition mineral supply chains are also assuming new roles and negotiating unprecedented deals. Companies are managing unfamiliar risks, while regulators and oversight actors are struggling to keep up, particularly as the dominance of certain companies across multiple stages of the supply chain can inhibit accountability.

The energy transition also relies on sourcing minerals from countries where corruption is a severe challenge. One study [estimates](#) that 30 to 40 percent of the forecast mineral production needed for decarbonization of the electricity and transport sectors will occur in countries with “weak, poor and failing resource governance”. Large amounts of the world’s cobalt, nickel, copper and lithium is mined in countries that rank poorly in Transparency International’s Corruption Perceptions Index (see Figure 2), while some transition minerals, including rare earth elements, are found in countries with contested governments or ongoing conflict.

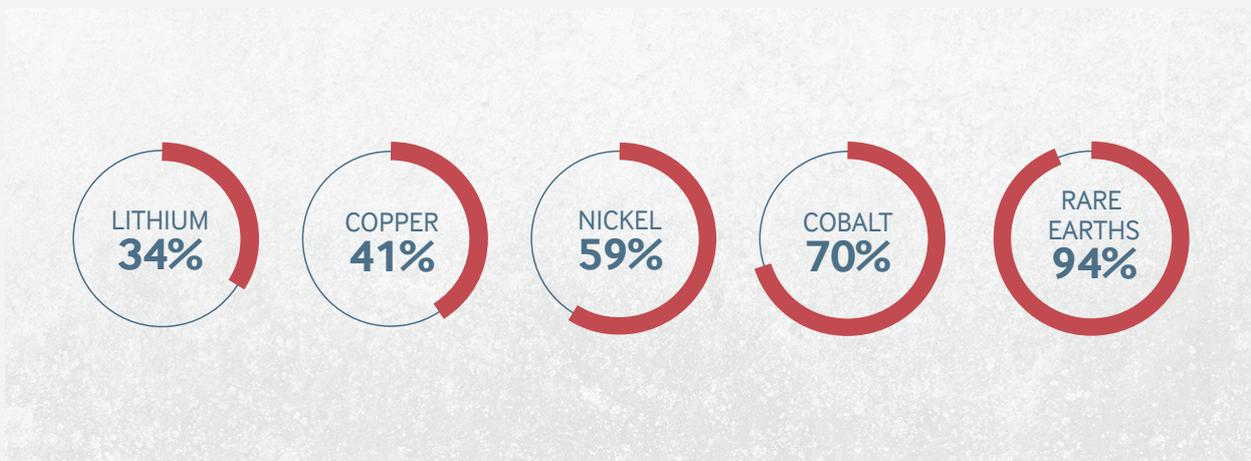


Figure 2. Percentage of energy transition minerals located in countries with high levels of corruption. Source: [Transparency International Accountable Mining Programme](#).



Examples of corruption in the transition minerals sector

Cu

Copper

Copper is essential for solar panels, wind turbines and many other energy transition technologies. There have been numerous corruption concerns in the copper industry. A finance minister in Mongolia has been investigated over allegations that he failed to identify that he owned shares in a foreign company that increased in value after a 2009 copper mine agreement that he co-signed. Production at a copper mine in Peru was shut down by protests from the local community twice in five months, with allegations of “irregularities” in decisions around roads built to access the mine.

Co

Cobalt

An audit identified that more than USD 400 million disappeared between 2010 and 2020 from a state-owned mining company in the Democratic Republic of Congo that is involved in several of the world’s largest cobalt and copper projects. The missing funds are presumed to have been misappropriated. In the same country, copper and cobalt deals struck between 2010 and 2012 with the involvement of a particular agent, now sanctioned for corruption under the U.S. Global Magnitsky Act, have led to a loss of at least USD 1.36 billion to the public purse. Major companies, including Tesla, General Motors, Samsung and LG Chem, source cobalt from the commodity trader involved in these deals.

Li

Lithium

Lithium is essential for battery storage and electric vehicles; an electric car battery has between 30 and 60 kilos of lithium. In Chile, which hosts major deposits of the mineral, a former economics minister allegedly took illegal payments from a mining company awarded lithium concessions to modify water regulations in favor of the industry. The same company has been investigated for money laundering, tax evasion and illegal campaign financing, with shares owned by politically exposed persons (PEPs) from a former regime.

Ni

Nickel

A business representative from a subsidiary of one of the world’s largest nickel companies and a regional official in Russia were charged with bribery after the official allegedly received the equivalent of more than EUR 65,000 in return for granting a disputed license. The company had previously been denied a license for failing to meet its environmental obligations. Russia supplies 20 percent of global high-purity nickel, used in electric vehicle batteries, and prices soared in the wake of its further invasion of Ukraine in 2022.

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elements

Rare earths

Rare earths are essential for wind turbines and electric vehicles, and they are largely found in East and Southeast Asia. Illegal mining of rare earths in one border region controlled by militias is alleged to supply a major power’s state-owned enterprise. Investigative reports have claimed that the militia receives bribes for access to the mining sites, illegally taxes exports and operates domestic companies that are a front for foreign-owned businesses. These processes may have led to water pollution, significant damage to the local ecosystem and increased threat of landslides. Operations at Africa’s only rare-earth mine in production, in Burundi, were suspended last year following criticism from an anticorruption civil society organization and from the presidency that the country was not getting an equitable share of revenue from the project.

By taking decisive action now to tackle corruption in transition mineral supply chains, governments, businesses, international organizations and the climate community will do the following:

Protect the well-being of producer countries from further “resource curse” effects to support a just energy transition.²

Corruption has meant that previous surges in demand for natural resources have lined the pockets of privileged elites, without significantly boosting public revenues to pay for necessary services, including in some of the world’s poorest countries. Mining sector corruption enables environmental destruction, human rights violations, labor abuses, losses in foreign investment, weaker democracies, stronger dictators and conflict, with a particularly egregious impact on women, gender minorities, human rights and land defenders. These consequences all threaten sustainable and reliable supply chains. It is critical that global efforts to ramp up the deployment of low-carbon technologies do not come at the expense of the rights of citizens of producer countries.

Support responsible production that reduces delays and disruptions in the transition away from carbon-intensive technologies.

Corruption and a lack of transparency can disrupt mineral supply chains by delaying licensing decisions, contract negotiations, and project development. They can also lead to companies with inadequate experience or resources securing licenses. Scandals or the circumvention of necessary assessment and management of environmental and social impacts and risks can lead to protests, license revocations, reputational damage, legal battles, exits of investors and lost sales—all of which can disrupt production, raise costs, and undermine corporate and public revenues. [Research](#) suggests that governance concerns may add as much as two to three years to mine lead times. Corruption and mismanagement also destabilize producer countries and aggravate energy security concerns in a context of fierce geopolitical economic competition.

Unlock the financing needed to scale up responsible production of transition minerals.

Corruption is an ESG concern that discourages the mining sector investment needed to meet supply targets. Responsible investors [prioritize investment in countries with strong institutions](#), responsible management of the environmental and social impacts of the mining sector, and transparent and corruption-free environments.

Current approaches to tackling corruption do not reflect the scale and urgency of this challenge. Enormous deals are currently being struck without adequate safeguards. Among the mining sector’s traditional participants, including companies and governments, there is often an assumption that status quo approaches to corruption will suffice. At worst, this passiveness may slip into permissiveness, where the urgency of the energy transition is used to somehow justify corrupt behavior, whatever the costs. Although many new mineral initiatives and industry standard-setting bodies mention corruption to varying degrees, effective action is in short supply. Thankfully, however, there exists a great deal of knowledge about extractive sector corruption and sound practices to prevent it. The task now is to put these lessons into practice.

² The [resource curse](#) refers to the failure of many resource-rich countries to reduce poverty and produce benefits for their populations. In general, these countries are more authoritarian and unequal, more prone to conflict and less economically stable than countries without these resources.

Core anticorruption recommendations



These practices represent essential responses to corruption risks across the supply chain of the transition minerals sector.

They can ensure that companies and investors engage responsibly in high-risk contexts, producer countries and local communities get a fair deal, the space for corrupt actors is limited, and accountability is built in. They derive first from the [Extractive Industries Transparency Initiative \(EITI\) Standard](#), the [OECD Due Diligence Guidance for Responsible Supply Chains of Minerals](#) and NRCI's work on corruption in the extractive industries.

All stakeholders—including the governments of producer and consumer countries, companies across the supply chain, investors, international organizations and others working on climate change—should:

- 1. Act urgently—in months, not years—to implement stronger anticorruption measures, including in legislation and regulations, bilateral and multilateral partnerships, and trade agreements.** An unprecedented race for minerals critical to the energy transition has already begun, unleashing enormous potential for corruption that renders “business as usual” approaches inadequate. Preventive measures should be applied immediately, emphasizing the following steps in all relevant legislation and regulations, bilateral or multilateral partnerships, and trade agreements. Senior decision-makers should ensure coordinated action across different parts of government, including embassies and specialist departmental teams, for effective implementation of reforms.

2. Explicitly identify corruption risks and develop mitigation plans in any energy transition mineral strategies, activities and operations.³ In doing so:

- a. Address the different types of corruption that could arise. Stakeholders should think of corruption in broad terms (for example, undue private influence on policy-making and manipulation of environmental, social or community requirements) rather than only in terms of bribery risks.
- b. Explain the strategy for avoiding corruption and avoiding risks of enabling corruption, the latter involving situations where stakeholders know their actions will likely lead to corruption (such as making a payment that will likely be misappropriated).
- c. Include explicit plans for identifying, preventing and mitigating corruption risks at specific stages of the value chain where mining sector corruption regularly occurs, including: the award of licenses, permits and approvals; the procurement of goods and services; in relationships with SOEs; commodity sales and trading; and revenue distribution.
- d. Adopt a reporting system for “knowing and showing” how the entity monitors and responds to ongoing corruption concerns, including effective whistleblower mechanisms.
- e. Build the capacity of stakeholders to understand corruption risks and effective ways to address them.

3. Prevent corruption from weakening the protection of community rights and enforcement of environmental and social safeguards. Strong commitments to regular, sustained and meaningful stakeholder engagement, including respecting Indigenous Peoples and their right to free, prior and informed consent (FPIC) and the rights of other marginalized groups, are an essential safeguard against corruption. Stakeholders should ensure that the rules and regulations around such consultations are transparent, widely known and enforced. This engagement should be supported with strong transparency measures, including:

publication of gender-responsive environmental and social impact assessments, approvals and management plans; monitoring data; documentation of consultations; community agreements; and access to local grievance mechanisms that incorporate [UN Guiding Principles on Business and Human Rights](#) effectiveness criteria. Support should also be given to environmental studies that assess whether new mining projects will contribute to local or regional vulnerability to climate change, for example through depleting local water sources.

4. Adopt and champion project-level contract, payment, commodity trading and beneficial ownership transparency in line with global standards to make it easier to detect corruption, particularly regarding high-risk entities such as state-owned enterprises (SOEs). The [EITI Standard](#) details the transparency reporting threshold required to meet international good practice standards, and stakeholders should not adopt, accept or endorse transparency levels that fall below this threshold. The EITI Standard is currently being implemented by 57 countries globally, with most leading international mining companies supporting the Standard in participating countries. More than 40 countries already disclose contracts, and all EITI countries have developed roadmaps for beneficial ownership transparency. Stakeholders should build on and reinforce steps taken in these countries. As a matter of priority, all stakeholders should push for the immediate and comprehensive disclosure of the following information at project level:

- a. Contracts and licenses, including awards related to exploration and production, commodity trading and procurement, and environmental and social approvals.
- b. Payments to governments by mining companies and commodity traders, disaggregated by project or sale.
- c. Verified beneficial ownership information across the entire mineral supply chain.

In addition, stakeholders should promote and implement stronger due diligence standards for engagement with SOEs, including SOE transparency in financial reporting.

³ A number of resources can help with this process, including Transparency International’s [Mining Awards Corruption Risk Assessment \(MACRA\)](#) tool, [Responsible Mining Business Integrity Tool](#) and [Anti-Corruption Guide for Junior Mining Companies](#), NRGi’s [Diagnosing Corruption](#) tool, the OECD FAQ on [How to address bribery and corruption risks in mineral supply chains](#) and UNDP’s [Practitioner’s Guide for Corruption Risk Mitigation in Extractive Industries](#).

5. Prevent political elites from unfairly capturing opportunities. In many countries, powerful officials and their allies receive unfair access to the mining sector and its profits. This practice lowers the producing country's returns, especially benefits for its citizens, raises sector costs, and leaves investors facing legal, ethical and political challenges. To help neutralize this widespread trend, all stakeholders should insist that companies:

- a. Adopt the transparency measures noted above.
- b. Require beneficial ownership reporting, including and especially for PEPs, from all third parties, including joint venture partners, subcontractors, transporters, traders, agents, intermediaries and other players prone to corruption risks. Companies should verify this information for high-risk entities as part of due diligence processes.
- c. Refuse to conduct business with any entity whose key personnel or beneficial owners have conflicts of interest that cannot be adequately managed or with those that have a record of corruption where there is no evidence of mitigation of corruption risks. Companies should document this commitment in a publicly available policy and report on their implementation of this policy.
- d. Adopt, disclose and enforce strong "revolving door," lobbying and political donation rules.

6. Reduce the use of agents and intermediaries as much as possible and adopt extensive controls for those that remain. As evidenced by dozens of extractive sector corruption cases, channeling bribes via agents and intermediaries is one of the sector's most common corruption modalities. Mining companies, commodity traders and suppliers should all work to eliminate the use of agents when seeking new business. For any agents that remain, companies should disclose the names and beneficial owners of the agents and apply strict controls to their activities and payments. Companies should make it clear that they will not work with intermediary entities that pose clear corruption risks and fail to meet basic standards and should withdraw when necessary.

7. Avoid enabling kleptocracy and state capture through mitigating corruption risks and discontinuing business relationships where needed. Some transition minerals come from countries where the political leadership systematically misappropriates natural and

financial resources to benefit a narrow group of elites rather than the wider population, or where weak or absent integrity measures mean that private interests have "captured" the state. When engaging in such contexts, stakeholders should assess whether their activities enable or strengthen these trends (such as by helping political elites profit from a corrupt deal, making payments that will likely be misappropriated, or unduly influencing policy decisions). They should implement corrective action and mitigate risks, discontinue relationships where risks are not addressed, and report on these assessments and the chosen responses. Stakeholders engaging in these contexts should insist on transparency (as set out in recommendations 3 to 6 above) as a key consideration for their continued engagement and ensure that they have robust internal anticorruption policies.

8. Support downstream supply chain actors to integrate checks of the above practices into responsible sourcing and due diligence systems. Companies should undertake risk-based due diligence to identify, prevent and mitigate risks of corruption deeper in the supply chain. For example, this means battery and vehicle companies conducting due diligence on the mining companies and traders from which they source their minerals, including where artisanal and small-scale mining (ASM) is involved. Risks from such supply chain relationships may lie outside the scope of criminal liability but still directly link to company operations, and companies should be willing to disengage or suspend engagement with suppliers where necessary. The [OECD Due Diligence Guidance for Responsible Supply Chains of Minerals](#) and accompanying FAQ on [How to address bribery and corruption risks in mineral supply chains](#) provide detailed government-backed recommendations for conducting due diligence in mineral supply chains. These are tools to support companies to remain engaged in high-risk contexts through risk mitigation, rather than to disengage altogether, with the overall objective of promoting responsible investment in mineral-producing regions. Individual company efforts should be supplemented by collective multi-stakeholder action. Industry responsible sourcing assurance programs and certification schemes should also more effectively integrate anticorruption due diligence checks in audits of member company due diligence systems.

9. Support the rights and activities of civil society, journalists, whistleblowers and other anticorruption actors. These actors help prevent corruption by investigating possible wrongdoing, holding companies and governments to account, and advocating for reform. But in many countries they lack resources and face constraints and threats. All stakeholders can adopt strategies to regularly engage with, resource, defend and promote rights for these crucial anticorruption players, including by ensuring they have access to the information they need.

10. Ensure consequences for corrupt actors through effective enforcement and accountability measures, with a focus on the victims of corruption throughout. Without effective enforcement of anticorruption, human rights, labor, and environmental legislation and regulations, there is little credible deterrent to prevent rule breaking. Yet soaring commodity prices and increased demand for transition minerals could mean more risk taking to reap higher rewards, while oversight actors face a heavier workload or even political pressure to turn a blind eye. Monitoring agencies, law enforcement agencies and the judiciary in producer countries must be sufficiently well-resourced and independent from government agencies and SOEs to address this challenge. Consumer countries must also ensure proper enforcement of anti-bribery legislation, including against companies listed or headquartered in their jurisdiction, and tackle illicit financial flows stemming from this sector.⁴ This work should include a broad and inclusive focus on the victims of corruption throughout the process, from the start of investigations through to decisions on sentencing and settlements.

In addition, governments providing development assistance to mineral-producing countries should:

11. Increase linkages between economic governance and anticorruption prevention and response efforts in the transition minerals space. Public financial management (PFM) capacity building, domestic resource mobilization, and public contracting and procurement support should be linked to transparency and oversight measures. For example, PFM projects should promote well-resourced mining regulators with transparent budgeting systems that ensure regular, punctual payment of public employee salaries. Support should also be given for governments to plan and model

for different future demand and price scenarios, which will make it harder for undue influence from public or private interests to lead to unsustainable projects or stranded assets.

12. Fund activities to strengthen integrity along critical mineral supply chains, including as they cross borders. To transition away from fossil fuels at speed, supply chains need to be secure and protected from corruption at all stages. There may be vulnerabilities, such as illegal cross-border smuggling, that damage producer country economies for the benefit of a few individuals. Development partners should support the work of anticorruption institutions, civil society organizations, community bodies and media that provide oversight of corruption risks as a key component of strategies to promote responsible scaling up of transition minerals.

13. Leverage development assistance in the mining sector to connect the anticorruption agenda to opportunities for responsible investment in the sector. Set milestones for adoption of enhanced transparency measures and institutional safeguards for mineral-producing partners and help mobilize businesses and prospective investors when milestones are reached.

14. Support rules, standards and norms on global transparency, integrity and accountability in the mining sector. This should include supporting implementation of the EITI and the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals. Mandatory rules with strong standards on governance and anticorruption are essential to promote stable and sustainable supply chains, particularly in large consumer markets like the E.U. and U.S. or countries where large numbers of extractive supply companies are registered or listed.

15. Strictly apply anticorruption measures, as set out in these core recommendations, as preconditions for project financing. Many producer and consumer countries, international financial institutions, multilateral organizations, development banks, and other private financiers are ramping up financing for transition mineral projects and entities. These funders should not award public or private money to projects that fail to adopt strong anticorruption measures.

⁴ Transparency International's *Exporting Corruption 2022* report found that only two of the world's leading 47 global exporting countries, including 43 countries that are signatories of the OECD Anti-Bribery Convention, actively enforce anti-bribery legislation, such as the U.S. Foreign Corrupt Practices Act (FCPA) and the U.K. Bribery Act. Greater use of tools like targeted sanctions could also help ensure consequences for corruption in the extractive sector.

Expert Group on Preventing Corruption in Transition Minerals

These recommendations were developed by the Expert Group on Preventing Corruption in Transition Minerals, bringing together perspectives from civil society, governments, academia and international organizations. The development process was led by NRGi with advice from the OECD Centre for Responsible Business Conduct and the EITI.

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The Natural Resource Governance Institute is an independent, non-profit organization that supports informed, inclusive decision-making about natural resources and the energy transition. We partner with reformers in government and civil society to design and implement just policies based on evidence and the priorities of citizens in resource-rich developing countries.

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