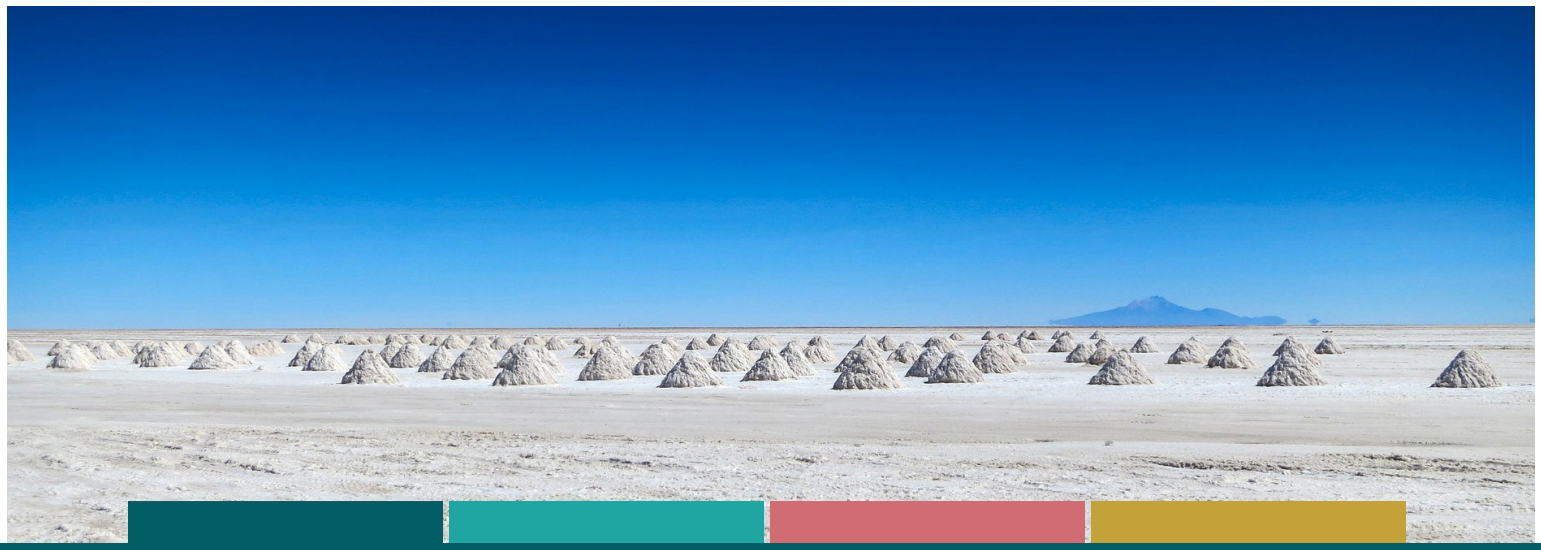

From Mine to Market: Using Traceability to Fight Mineral Sector Corruption

In the global rush for transition minerals, the path from mine to market may become a corridor of corruption. It's a journey where smuggled minerals vanish, illicit funds are laundered, and communities are left behind. Traceability, then, isn't just about tracking a product for commercial reasons; it's about how it can be used to build responsible and resilient value chains.

What is traceability?

Traceability refers to the ability to track three types of information related to a product: (1) its geographical route, including origin, processing or transit; (2) its chain of custody, i.e. the various entities that have held the product throughout the supply chain; and (3) its physical evolution, including processing and transformation. A product is traceable when these elements are verified with a sufficient degree of confidence.

How can traceability support anti-corruption efforts?

When reliable data is available, core traceability information can be overlayed with further sources of information as part of anticorruption due diligence efforts by companies and investigations by law enforcement, journalists and civil society.

For example:

- Data on mineral origin, processing and transit areas can be overlayed with indicators on the rule of law, corruption perceptions, and quality of the governance of the minerals sector to help identify vulnerabilities and assess the reliability of government-issued documents.
- Chain of custody information can be combined with contracts and beneficial ownership information to help identify the involvement of high-risk actors, such as Politically Exposed Persons, military, police, beneficial owners with criminal background or companies lacking operational or financial qualifications.
- Plausibility checks on production and trade volumes, along with contractual terms, can reveal discrepancies which may signal manipulation of records, underreporting, or other corrupt practices.

What are the limitations in the use of traceability systems for anticorruption?

Traceability systems can support anticorruption work, but they are not a substitute for due diligence. Alone, these systems cannot guarantee responsible mineral value chains – products can be fully traceable yet still involve corruption, human rights abuses or environmental harm. The reliability of these systems depends heavily on the accuracy of the data entered; if false information is entered, the entire system can be compromised. This risk is especially high in jurisdictions with weak governance. To address these issues, traceability for high-risk sources must be strengthened by third-party verification, independent audits, and robust on-the-ground assessments, with a focus on ensuring that all verification processes are credible and accountable.

How can you ensure that the traceability system itself is not at risk of manipulation?

A traceability system requires robust infrastructure – reliable data management, secure storage, and ways to link digital records to physical materials – tailored to the supply chain's risks and cost-benefit considerations. Some supply chains may require a more detailed and structured system, for example due to the risk of fraudulent declaration of mineral origin, while a document-based chain-of-custody system may suffice elsewhere. The credibility of a traceability system depends on how it is governed, how it accounts for conflicts of interest, and how it collects and discloses information (while protecting confidentiality of certain information). Transparency and multistakeholder co-governance models with equal decision-making power can help ensure that verification initiatives' systems can be trusted, and ensure that relevant data is accessible to external stakeholders, with due regards for business confidentiality and competitive concerns.

How can different actors curb corruption at each level of the mineral supply chain?

To curb corruption at each level of the mineral supply chain, companies should conduct thorough due diligence in line with OECD Responsible Business Conduct standards and guidance and the UN Guiding Principles on Business and Human Rights. This should include risks that may fall outside the scope of criminal liability but are linked to a company through business relationships.

Downstream companies should, at a minimum, identify all smelters and refiners, and their beneficial owners, in their supply chains—key transformation points where traceability data can be obscured—and ideally trace minerals to the mines of origin. They should gather due diligence information on all mines of origin, transport and transit to apply red flags and prioritize risk mitigation. For high-risk supply chains, companies should carry out on-the-ground assessments to effectively map and evaluate potential corruption risks.

Private sector traceability systems can best facilitate these practices by developing multistakeholder co-governance models, strengthening the reliability of their data inputs, and by expanding the scope of information they capture to facilitate anticorruption assessments. This information could include the beneficial ownership of supply chain actors, commitment to disclose revenue payments according to the EITI, and detailed anticorruption systems in place.

State actors should pass and robustly enforce stronger anticorruption and corruption-sensitive mandatory due diligence legislation, particularly in major market jurisdictions.

These recommendations were developed by the Expert Group on Preventing Corruption in Transition Minerals, bringing together perspectives from civil society, governments, academia, enforcement agencies, and international organizations.

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