

OECD and EITI Standards for Transparent Mineral Supply Chains



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Introduction

Countries that are dependent on mineral resources often struggle to maximise the benefits from their minerals because regulations are not in place to make sure that benefits flow equitably to citizens. In countries where governments lack full control of their territory or adequate systems to monitor mining activities, illegal exploitation of these resources and mineral smuggling have the potential to exacerbate conflict.

Global efforts have emerged to address these issues. Among these are the OECD Due Diligence Guidance for Responsible Mineral Supply Chains (OECD Guidance) and the Extractive Industries Transparency Initiative (EITI). In the context of managing semi-formal and informal mining activities, transparency is often key in ensuring the integrity of the supply chain.

The **OECD Due Diligence Guidance for Responsible Mineral Supply Chains (OECD Guidance)** is a government-backed standard that clarifies how companies can identify and better manage risks throughout the entire mineral supply chain, from miners, local exporters and mineral processors to the manufacturing and brand name companies that use these minerals in their products. The Guidance aims to help companies respect human rights, observe applicable rules of international humanitarian law in situations of armed conflict, avoid contributing to conflict and cultivate transparent mineral supply chains and sustainable corporate engagement in the mineral sector. 43 countries, including six non-OECD countries, have committed to promote implementation of the OECD Guidance by companies operating in or from their territory. The OECD Guidance is also directly referenced in binding regulations in the United States, the European Union and several African countries, notably the DRC, Burundi and Rwanda.

The **Extractive Industries Transparency Initiative (EITI)** is a global standard for the good governance of oil, gas and mineral resources. The EITI Standard requires disclosure of information along the extractive industry value chain from licensing to extraction, to how the revenue makes its way through the government, to how it contributes to the economy. The EITI Standard is implemented in 52 countries around the world. Each of these countries is required to regularly disclose information on legal frameworks, contracts and licenses, beneficial ownership, production, revenue collection, revenue allocation, and social and economic spending.

Linkages between the two standards

The OECD Guidance and the EITI Standard have the over-arching goal of improving the governance of the minerals sector and preventing corruption and mismanagement of mineral resources. **These standards complement each other in that both provide a disclosure and governance framework for companies to ensure that transparency across the mineral supply chain lessens corruption and conflict in extractive operations.**

The OECD Guidance provides for a set of detailed recommendations for how companies should identify and address certain risks in the mineral supply chain, including the risk of contributing to corruption and the non-payment of taxes legally due to the government. The EITI is based on the premise that greater transparency leads to accountable management of natural resources.

Both are sanctioned by governments of countries implementing them. EITI member countries have a mechanism for producing annual EITI Reports at the national level. **The OECD Guidance directly references the EITI Standard**, recommending that companies commit to disclosing payments made to governments and other actors according to the EITI Standard, in order to foster greater transparency in mineral supply chains and help identify irregularities.

EITI	OECD
<ul style="list-style-type: none"> ✓ Publicly declare support for the EITI Principles. ✓ Publicly disclose license holders and allocation procedures. ✓ Publicly disclose taxes and payments made to all EITI implementing countries. ✓ Publicly disclose information on production, exports, the purchase of resources from the state and other contextual information to better understand whether citizens are getting a fair deal from extractive operations. ✓ Publicly disclose the commercial operations of state-owned enterprises and their fiscal flows with governments and other extractive companies. ✓ Publicly disclose beneficial owners of all entities that have participating interests in the extractive sector in the country and take steps to identify the beneficial owners of entities with participating interests in extractive projects. ✓ Beginning 2021, publicly disclose contracts entered into that govern the exploration and exploitation of oil, gas and minerals. ✓ Work together with governments to deliver natural resources in a manner that benefits societies and communities. ✓ Ensure that company processes are appropriate to deliver the data required for high standards of accountability. ✓ Supporting companies are expected to engage in rigorous procurement processes, including due diligence in respect to partners and vendors. ✓ Supporting companies are expected to deliver natural resources in a manner that benefits societies and communities and ensure that company processes are appropriate to deliver the data required for high standards of accountability. 	<ul style="list-style-type: none"> ✓ Disclose payments made to governments in accordance with EITI Principles. ✓ Publicly report on their supply chain due diligence policies and practices and may do so by expanding the scope of their sustainability, corporate social responsibility or annual reports to cover additional information on mineral supply chain due diligence. ✓ Public reports should include: <ul style="list-style-type: none"> • Descriptions of company management systems in relation to supply chain due diligence, such as their supply chain due diligence policy and controls put in place to collect and disseminate supplier information. • The risk assessment with due regard taken of business confidentiality and other competitive concerns. • Steps taken to manage risks, including a summary report on the strategy for risk mitigation and the involvement of affected stakeholders, as well as efforts made by the company to monitor and track performance.

It is the position of the OECD Secretariat that companies operating in non-EITI countries should take steps to encourage transparency of payments in the sector through e.g. disclosure according to the EITI Standard and/or joining industry associations or statements encouraging the host government to join the EITI or remove restrictions on disclosure. Companies in EITI countries not only disclose information but also work with governments and civil society to build trust with communities, improve accountability and contribute to reforms in the extractive sector.

Meeting Country Level Commitments to Support Responsible Sourcing and Accountable Governance of Natural Resources

Forty-three OECD and non-OECD countries have adhered to the OECD Council Recommendation on the Due Diligence Guidance for Responsible Mineral Supply Chains, which is a political commitment to actively support integration of the 5-step framework for risk-based due diligence in the mineral supply chain, and ensure the widest possible dissemination of the OECD Guidance and its active use. For these countries and others, joining the EITI and implementing the EITI Standard will **help create an enabling environment for responsible sourcing**, resulting in short- and long-term benefits for countries and companies operating in or from their jurisdictions.

Fifty-two EITI member countries disclose information on the entire value chain every year. The information that the EITI requires to be disclosed in 52 implementing countries could help verify the information provided by companies for their due diligence assessments. For example, information on the origin of the commodity could be complemented by EITI requirements on license allocations and production. Information supplied by companies on the chain of custody of minerals could be verified by EITI requirements on transportation fees and mineral sales. Both the OECD Guidelines and the EITI Standard could shed light on ownership structures and beneficial ownership of companies, including identifying politically exposed persons involved in mineral extraction.

Addressing Risks and Promoting Formalisation in Artisanal and Small-Scale Mining (ASM)

In conflict-affected and high-risk areas, artisanal and small-scale miners are particularly vulnerable to serious abuses of human rights, extortion, and criminal capture associated with the extraction, transport, trade, handling and export of minerals. The vulnerability of miners is increased when ASM operates in the absence of an enabling regulatory environment conducive to responsible, conflict-sensitive mineral production and legitimate trade.

Through the dissemination of the recommendations of the OECD Guidance, the OECD seeks to **encourage responsible private sector engagement** in high risk, conflict and post-conflict areas, **allowing for the progressive inclusion of informal workers into global supply chains**. The OECD is involved in various activities to explore ways to:

- support formalisation efforts of artisanal mining globally;
- enable responsible sourcing of artisanally-mined products, in cooperation with the private sector;
- and support and promote the implementation of the appendix on ASM.

While the EITI has traditionally focused on the formal, large-scale mining (LSM) sector, it increasingly seeks to provide a more comprehensive picture of the contribution of the extractive sector to the economy, both formal and informal. This includes fiscal revenues, employment, exports, livelihoods, investment and contribution to GDP through linkage industries. Inclusion of ASM within the EITI process has been seen in countries such as the **Democratic Republic of the Congo (DRC), Mali, Guyana, the Philippines, Senegal, Suriname, Tanzania, Togo and Zambia**. Other countries have started discussing ASM issues through forums and engagement of stakeholders, including **Afghanistan, Ethiopia, Liberia, Madagascar, Mongolia, Mozambique, Papua New Guinea, the Philippines, Tanzania and Zambia**. In **Burkina Faso, Mali and Guinea**, EITI communication campaigns have often targeted mining sites occupied by artisanal miners. For countries that have decided to include ASM in the scope of their EITI process, positive results can be seen in terms of increasing transparency in the sector, contributing towards the formalisation of the sector, and sparking an evidence-based debate on the costs and benefits of ASM.

Harnessing the Benefits of a Transparent Mineral Supply Chain

For mineral producing countries, the benefits of supply chain transparency include: Better ability to collect payments due to the government; More efficient negotiation and management of minerals extraction agreements; Stronger protections against financial crime such as corruption, money laundering, and tax evasion; and Greater access to international markets where expectations for responsibly sourced mineral and accountable governance of mineral resources are increasingly becoming the norm. For countries acting as minerals trading hubs and countries sending foreign direct investment to mining regions, promoting responsible sourcing and transparency across the value chain results in a more level business playing field. Transparency in the mineral supply chain enables citizens to monitor the practices of key players in the sector and demand accountability for violations of regulations.

The OECD Guidance and the EITI Standard are adhered to by companies operating in the 35 OECD countries and 52 EITI countries. Through their common objectives and complementarity between their requirements, both standards are making transparency in the mineral supply chain a norm rather than a mere aspiration for companies. Some of the ways by which the OECD and the EITI could work together include:

- **Ensuring regular, timely and comparable information reported by companies to enable cross-checking and verification of data**
- **Reinforcing joint messages to companies and governments in countries where both standards are adhered to**
- **Collaborate with governments, industry and partners towards the formalisation of artisanal mining by bridging the data gap and aligning technical support**

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