

**Bribery & Corruption in the Mining Industry of
Developing Countries, With the Main Focus on
Mongolia, and the Role of the IFA**

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Executive Summary

Purpose

Bribery and corruption stand in the way of the sustainable development of any state, especially in developing countries where regulatory frameworks and enforcement mechanisms may be less robust. Corrupt practices among the political leaders and corporate elites rob the local people of the decent living standards they deserve to gain from the country's natural resources. In the mining industry, which holds substantial economic significance, these illicit activities are particularly pervasive, threatening economic progress and social and environmental stability. This research delves into the critical role of the Investigative and Forensic Accountant (IFA) in detecting, identifying, investigating, and preventing bribery and corruption within the mining sector of developing countries, with a focused examination of Mongolia. The complexity of the mining supply chain and the increasing sophistication of fraudulent schemes necessitates the advanced skills and expertise that an IFA brings to the table, making their role indispensable in the fight against mining corruption.

This research paper starts with section 1, where the definitions of the key terms that are the focus of this study, such as bribery, corruption and fraud, will be described. Section 2 examines the notable past and present cases of mining corruption in developing countries which involved IFAs in their investigations. This section will then analyze the forensic accountant's role in these case investigations and propose potential opportunities for the IFA's role in the future. This section concludes with a descriptive list of global agencies that fight corruption and mining corruption. Section 3 illustrates mining corruption in developing countries and presents international perspectives on the issue

through the various anti-corruption agencies' principles and recommendations. Section 4 will hone in on Mongolia as a developing country battling mining corruption. This section will start with Mongolia's political and socio-economic background and delve into the country's anti-corruption framework. Then, we will learn about the impact of mining corruption on the environment, human rights, and living standards. This section will also provide a descriptive list of anti-corruption agencies in Mongolia, both local and international. Then, we will explore mining corruption case scandals in Mongolia and examine the IFA's role in investigating and prosecuting those involved. To combat these corrupt practices, the research offers recommendations for strengthening the role of a forensic accountant in this region. Finally, section 5 presents the conclusions of this research study.

Background

Despite notable progress in globalization and international economic collaboration, the disparity between developed and developing nations endures, primarily driven by entrenched bribery and corruption within the mining sector and according to EY's 2014 13th Global Forensic Data Analytics Survey entitled "Big Risk Requires Big Data Thinking," bribery and corruption surpassed the list of fraud concerns, ahead of asset misappropriation and money laundering (Crumbley et al., 2021). Recent investigations, including those uncovering extensive bribery schemes in primary African mining operations, underscore the exploitation by multinational corporations of weak regulatory environments in developing countries. These practices divert potential revenue from critical infrastructure and public services, perpetuating poverty and underdevelopment. This exploitation highlights the imperative for stringent anti-corruption measures and

robust forensic accounting practices to dismantle the mechanisms sustaining these economic disparities.

The mining industry, especially in developing nations, has been highly vulnerable to bribery and corruption due to its substantial economic influence, intricate regulatory landscape, and extensive investments. Given its rich mineral resources and evolving regulatory framework, Mongolia is a notable example. Mongolia has experienced notable mining-related corruption and has been a center of notorious corruption scandals involving foreign corporations over the past few decades since it departed from communism. Reports from Transparency International and other watchdog organizations highlight systemic issues such as opaque licensing processes, regulatory loopholes, and the undue influence of political elites and corporate interests (Transparency International, 2020).

Addressing bribery and corruption in the mining industry through a forensic accounting perspective is crucial due to the complex financial structures and transactions that obscure illicit activities. Unravelling them requires the specialized skills of an Investigative and Forensic Accountant (IFA). The IFA employs advanced techniques such as financial statement analysis, tracing transactions, and data analytics, enabling it to uncover fraudulent schemes more effectively than traditional auditors or compliance officers.

Section 1: Definitions

This section will provide the official definitions for the key terms used throughout this research paper from the “Forensic and Investigative Accounting” textbook by Crumbley et al. (2021): bribery, corruption, fraud, and forensic accounting. Establishing clear definitions is essential for a comprehensive understanding of this research paper.

1.1 Bribery

Crumbley et al. (2021) defined a bribe as “the intent to exchange one favour for another favour with the exchange of money or property” (p. CAA). The Foreign Corrupt Practices Act (FCPA), a federal United States law enacted in 1977, forbids corrupt payments to foreign officials for gaining or keeping business. Bribery is giving or offering a bribe to someone in exchange for something of their personal interest or private gain. Bribery is pervasive among public officials, corporate executives, social elites, and ordinary people in developing countries.

1.2 Corruption

Transparency International (TI) is a global network with over 90 locally established national chapters and chapters-in-formation. The goal is to fight corruption in the national arena. TI defined corruption as “the abuse of entrusted power for private gain. It hurts everyone whose life, livelihood, or happiness depends on the integrity of people in a position of authority” (p. 3001). This definition applies to the context of the misuse of a country’s natural resources by the few in the positions of power at the highest levels of government for their private gain.

1.3 Fraud

Crumbley et al. (2021) state that fraud is “an intentional act that results in a material misstatement in financial statements subject to an audit. There are legal and other definitions. Employee fraud is using fraudulent means to take money or other property from an employer, usually involving falsification (e.g., false documents, lying, exceeding authority, or violating employer policies).” (p. FAI; DIS). The term fraud comprises the concepts of financial or white-collar crime and commercial crime.

1.4 Forensic Accounting

“The use of intelligence-gathering techniques and accounting/business skills to develop information and opinion for use by attorneys involved in civil litigation and give trial testimony if called upon; the action of identifying, recording, settling, extracting, sorting, reporting, and verifying past financial data or other accounting activities for settling current or prospective legal disputes or using such past financial data for projecting future financial data to settle legal disputes.” (p. FAI)

Section 2: Past, Present and Future Role of the Forensic Accountant in Combatting Mining Corruption

2.1 The Bulyanhulu Gold Mine Scandal in Tanzania (Mining Watch Canada, 2005)

The Bulyanhulu gold mine scandal in Tanzania is one of the most historically significant mining cases in the developing world. This case illustrates the convergence of government and corporate interests in the mining sector.

Bulyanhulu gold mine is located in the Kahama district of north-western Tanzania. Acacia Mining, a subsidiary of Barrick Gold - the world's largest gold-mining company, operates the mine. But by the late 1990s, the company was the subject of allegations of corruption, human rights abuses, forced evictions, illegal mining and dubious financial practices. The scandal drew wide attention and investigations, including those of forensic accountants.

The Bulyanhulu gold mine scandal was investigated by multiple disciplines, including forensic accountants, legal experts, and human rights organizations. Forensic accountants were relied upon to scrutinize financial records to find anomalies and follow the flow of the funds. These damages were crucial to assess the scale of the alleged fraudulent activity. Based on transactions, contracts, and financial statements, these specialists were able to tell a story about the misappropriation of resources and financial misconduct. This examination was crucial in helping to sustain legal proceedings and produced a grounding for further investigative steps.

The findings of the forensic accounting investigation included:

- **Bribery and corruption:** Paid bribes to Tanzanian officials to obtain mining rights and fend off regulatory pressure. In the opening, the bribes were masked as legal business prices and handed through a collection of offshore accounts.
- **Financial misreporting:** Revenues were underreported, and costs were overreported, reducing taxable income and royalties payable to the Government of the United Republic of Tanzania.
- **Illegal transfers:** Evidence of illegal financial transfers made by Acacia Mining to its parent company, Barrick Gold — exchanges designed to disguise the origin and recipient of money.

This had significant consequences for all the stakeholders involved, as follows:

- **Acacia Mining** had severe legal problems, including fines, sanctions, and reputational damage. The company also needed to establish a new profit-sharing arrangement with the Tanzanian government.
- **The Tanzanian government** pushed to reform its framework of regulations and governance of its local trading sector.
- **Human rights organizations** sought more protection for artisanal miners and accountability for human rights violations with the findings.

The case of the Bulyanhulu gold mine is evidence of the central nature of what forensic accounting can do in detecting intricate financial fraud and corruption, especially in the mining sector of developing countries. The extensive forensic examination indicated that outright financial malpractices did occur and called for more stringent governance and regulatory intervention within the mining industry.

2.2 Mining corruption case in the Democratic Republic of Congo

(Congo Ombudsman Says Millions Lost at State Mining Firm | Africanews, n.d.; DRC: Yuma, Mutombo and the Missing \$25m - The Africa Report.Com, n.d.)

The Democratic Republic of Congo's (DRC) anti-corruption agency Inspectorate General of Finance (IGF) uncovered significant irregularities in the operations of the state-owned mining company, Gécamines. The audit, covering 2010-2020, exposed extensive financial mismanagement, resulting in substantial financial losses for the company and state. The findings from the IGF Report were the following:

- **Mismanagement and lack of transparency:** The IGF report pointed out various problems such as irregularities in the transfers of mining assets, a lack of transparency in contract signing, and prejudices in the transfer of rights. These were severe problems for the company's financial health and transparency.
- **Embezzlement and untraceable funds:** A critical finding was the untraceability of over \$400 million out of \$600 million in tax advances and loans to the state. The report indicated a presumption of embezzlement of public funds and the selling off of company real estate, leading to further financial losses.
- **Excessive management bonuses:** Between 2010 and 2020, Gécamines generated \$2 billion in own resources. However, \$1.5 billion was used for management bonuses and snacks, which the IGF described as "exorbitant," indicating severe misallocation of funds.
- **Discrepancies in partnership revenues:** Gécamines' partnerships from 2012 to 2020 generated a global turnover of \$35 billion, yet the company received only

\$564 million in royalties, representing a mere 1.6%. This discrepancy suggested a significant undervaluation of the company's revenue entitlements from these partnerships.

- **“Minerals for infrastructure” deal with China:** The IGF also scrutinized the “Minerals for infrastructure” deal signed with China in 2008. It found inadequate monitoring of investments and income generated by the Sicominex joint venture, raising concerns about the benefits derived from this deal.

There were also corruption accusations and legal proceedings as listed below:

- **Accusations against former executives:** Albert Yuma, former head of Gécamines, and Deogratias Mutombo, former governor of the Banque Centrale du Congo, were publicly accused of corruption. Jimmy Munganga, president of the DRC's Court of Auditors, alleged their involvement in a \$25 million fraud between 2018 and 2020, with \$15 million embezzled from Gécamines and \$10.5 million from the DRC public treasury.
- **Court actions and investigations:** The IGF's September 2021 audit report implicated several senior officials in financial misconduct. The court invoked measures to prevent the suspects from leaving the country and froze their accounts. Mutombo and Yuma were also implicated in the misappropriation of over \$205 million for the Bukanga Lonzo agro-industrial project.
- **Government response:** Following these disclosures, President Félix Tshisekedi indicated that he planned to renegotiate mining contracts, especially those with China. The IGF report was an important part of Tshisekedi's efforts to overhaul

the grand theft by state-owned enterprises which has blighted the country for years.

The IGF report confirmed Gécamines's financial irregularities, mismanagement and corruption, that resulted in billions of the DRC's debt on a failed mining company. These were paramount issues that required intervention to address, whether it was renegotiating contracts or legal proceedings against the perpetrators, which were crucial steps to enhance transparency and accountability in the country's mining sector.

2.3 Case Analyses – The Role of the Forensic Accountant

The historic Bulyanhulu gold mine scandal in Tanzania during the late 1990s and the recent Gécamines corruption scandal in the Democratic Republic of Congo underscore the crucial role forensic accountants have played in investigating and prosecuting those involved in these wrongdoings. While forensic accountants are not mentioned in these cases, the complex financial analyses and investigative tactics employed to solve the cases suggest their participation in the investigation and legal process.

In the case of the Bulyanhulu gold mine, international non-governmental organizations (NGO) were involved in examining allegations of human rights abuses and related financial crimes. Such organizations usually opt for forensic accountants to take advantage of their work in the identification of discrepancies, uncovering illegal activities, tracking the flow of illicit funds, and piecing together financial crimes.

When it comes to legal proceedings, forensic accountants play a crucial role in their evidence collection and presentation by facilitating their proof via their reports, which meet the Standard Practices for IFA engagements. In the case of the Bulyanhulu gold

mine scandal, the forensic accountants employed by the NGOs were advantageous for the case since they were truly independent and impartial with no connection to the government, corporations, and citizens involved.

The Inspectorate General of Finance (IGF) is a Congolese government department, created alongside the Ministry of Economy and Finance, to supervise the state finances of the Democratic Republic of Congo (DRC). According to the Ministry's website, this body investigates, audits, evaluates, and enforces compliance with laws and regulations in businesses and public organizations. IGF monitors the regularity of financial transactions within public institutions, financial services, and public accounting and carries out investigations mandated by the Minister of Finance or other governmental ministers. The IGF also proposes measures for deficiencies identified during their audits.

As such, while the agency may not explicitly label its auditors and investigators as forensic accountants, the work of these auditors and investigators is centered around the same functions of forensic accountants. A large number of governments have henceforth employed in-house forensic accountants to strengthen their compliance and monitoring of economic resources. The disadvantage of in-house forensic accountants, whether employed by the government or corporation, is that they may be perceived as less independent and impartial than if they were hired by an external party.

Therefore, in summary, the important role of forensic accountants has become more apparent over the last two decades through high-profile investigations where they were involved in uncovering the financial aspects of the crimes. Rooted in the 1980s, the practice of forensic accounting is becoming increasingly recognized and popular in the business world as well as in civil and criminal investigations. Yet there are still more

opportunities for forensic accountants to play a role in the global fight against corruption, especially in the fight against mining-related corruption, as we will discuss next.

2.4 Potential Future Role of the Forensic Accountant

As forensic accounting gains more popularity and momentum in the business world and the judicial systems around the globe, there is an emerging trend that more IFAs are being employed directly by corporations and governments. This gives way for forensic accountants to be more involved in the detection and identification of incidents of bribery and corruption and participate in these case investigations and legal proceedings. This increasing role of forensic accountants in the fight against bribery and corruption demands the refinement of the professional's approach and skills in these investigations in the following ways.

- **More IFAs are needed everywhere**

In the current corporate and governmental regime, businesses and non-profit organizations should integrate internal forensic accountants within their organizations. IFAs should work directly for the corporations or governmental and non-governmental bodies that engage them and should be conducting in-house investigations in a comprehensive manner. We have to be really careful about how we structure the role of an IFA so that they are truly independent and impartial, and can therefore report directly to the legal or audit committee, avoiding any conflicts of interest. Such an organizational design not only ensures the independence of the investigations but also enhances the robustness of the findings so that an IFA may operate without undue influence from other departments or senior management.

For an IFA to operate successfully, a culture of transparency and a tone at the top that encourages vigilant investigation of potential issues, especially within the most senior parts of the organization, is essential. This culture fosters accountability and lessens the chance of unethical activities going under the radar or unchallenged. In addition, the backing of top management in advocating and applying strict investigative policies is necessary in equipping IFAs to discharge their responsibilities.

- **More proactive role than a reactive one**

According to the KPMG Forensic Focus 2018 publication, there is an opportunity for forensic accountants to help companies increase their standards in detecting and resolving incidents of fraud by establishing stricter control mechanisms. This involves the design and implementation of preventative analytics that can predict risks of strategic fraudulent activities. For example in the mining sector, Kabwe (2023) conducted a study that showed a relationship between financial statement manipulation and related party transactions for listed Zambian mining companies based on the financial statements from 2012 to 2020. He used descriptive statistics to detect this accounting fraud, and the same technique can be replicated to design a control mechanism that prevents financial fraud linked to mining corruption. (Kabwe, 2023)

- **Become more tech-savvy**

As organizations modernize their forensic accounting capabilities and criminals become bolder, borderless, and technology savvy, forensic accountants need to wield more sophisticated tools such as data mining, artificial intelligence and e-discovery. Competency with these state-of-the-art technologies arms forensic accountants with the

tools they need to navigate the intricacies of contemporary financial fraud, scrutinize large data sets for unusual trends and outliers, and automate the identification phase of digital investigations. The continual honing of these skills is key to being able for forensic accountants to keep up with these fraudsters, so that they are thereafter able to provide the valuable input into their clients which, in this digital era, is needed to combat the novel issues and threats which continue to emerge.

- **Develop professional skepticism**

According to Professor Brooks' panel discussion at the UTM 2018 Professional Accounting Futures Conference (PAC), professional skepticism is required of IFAs now more than ever. The key message from the panel was: "Professional accountants, including IFAs, need the skills to critically assess information provided to them". This requires an approach to forensic investigations that involves understanding the motivations of the people one is investigating, learning and employing listening and observation skills and identifying barriers to a successful investigation. In a mining corruption investigation, a forensic accountant needs to understand the pressures and personal interests of all stakeholders in the mining project. This includes the public officials, corporate executives, employees on each side and all other parties involved in the dealings. This will help the forensic accountant assess the risks of bribery and corruption at various stages of the mining business cycle. The forensic accountant should also employ effective listening and observation skills when interviewing the individuals of interest as well as when interacting with employees of the mining corporation and local people. This will help the forensic accountant incorporate local knowledge into the investigation and gain some valuable insight into the mining project and its activities.

Finally, the forensic accountant should identify barriers to a successful investigation such as the pressure from client or any other stakeholder to rush the investigation, budget concerns as well as one's own bias. The interviewees in higher positions such as mining corporation executives and political leaders would be the most difficult ones to interview. In this case, the forensic accountant needs to be prudent by planning more time for these interviews and being persistent with their questions. To be successful in a mining corruption investigation and to protect one's reputation, the forensic accountant needs to be assertive while remaining professional and ask impactful questions.

2.5 Global Agencies That Fight Corruption and Mining Corruption

International anti-corruption agencies play a pivotal role in the global effort to combat corruption by promoting transparency, accountability, and integrity across borders. Organizations such as Transparency International (TI) and the United Nations Office on Drugs and Crime (UNODC) collaborate with governments, the private sector, and civil society to investigate and counteract corrupt practices, including bribery, fraud, money laundering, and embezzlement. Their work is essential for maintaining fair economic systems, fostering trust in public institutions, and ensuring that resources are allocated efficiently and equitably. By exposing and addressing corruption, these agencies contribute to a more just and sustainable global economy, reinforcing the rule of law and supporting development initiatives worldwide. Below is a short list of the main international anti-corruption agencies whose work is prominent on the world stage as curated by the Anti-Corruption Commission of the Cayman Islands:

- **Organization for Economic Co-operation and Development**

The Organisation for Economic Co-operation and Development (OECD) aims to foster policies that enhance the economic and social welfare of people globally. By collaborating with governments, the OECD seeks to understand the factors driving economic, social, and environmental transformations. It evaluates productivity, global trade, and investment flows, analyzes and compares data to forecast future trends, and establishes international standards across various areas. The OECD also addresses everyday issues, such as taxation, social security contributions, and leisure time. Utilizing empirical data and real-world experiences, it recommends policies to elevate people's quality of life. Central to the OECD's efforts is a commitment to market economies supported by democratic institutions, prioritizing citizens' well-being while also targeting individuals who undermine a fair and transparent society, such as terrorists, tax evaders, and corrupt businesspeople.

- **The World Bank Group**

The World Bank Group currently focuses on two main objectives: significantly decreasing the number of people living in poverty and promoting income growth for the bottom 40% of the population in each country. Unlike conventional banks, the World Bank provides financial and technical assistance to developing nations through a unique partnership aimed at reducing poverty and encouraging development. It consists of five institutions governed by member countries: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID).

Established in 1944 and headquartered in Washington, D.C., the World Bank Group employs over 10,000 people across more than 120 offices worldwide.

- **Transparency International**

Transparency International (TI) is a non-profit, non-governmental organization committed to combating corruption globally. Renowned for its Corruption Perceptions Index, which assesses perceived corruption levels worldwide, TI operates in nearly 100 countries and engages on the international stage to highlight the harmful impacts of corruption. It collaborates with governments, businesses, and international organizations to create effective anti-corruption programs. Although TI does not align with any political entity or conduct investigations, it actively advocates for legal and behavioral changes to address corruption.

- **The United Nations Office on Drugs and Crime**

The United Nations Office on Drugs and Crime (UNODC) is a leading global entity in combating illicit drugs and international crime. Formed in 1997 from the merger of the United Nations Drug Control Programme and the Centre for International Crime Prevention, UNODC operates worldwide through an extensive network of field offices. It depends on voluntary contributions, primarily from governments, for 90% of its budget. UNODC's mandate includes aiding Member States in their fight against illicit drugs, crime, and terrorism. Additionally, as outlined in the Millennium Declaration, Member States committed to intensifying efforts to combat transnational crime, addressing the global drug problem, and taking unified action against international terrorism.

- **International Monetary Fund**

The International Monetary Fund (IMF), established in 1945, is an organization comprising 189 countries. Its primary objective is to maintain the stability of the international monetary system, which includes exchange rates and international payments that facilitate global transactions. In 2012, its mandate was expanded to cover all macroeconomic and financial sector issues impacting global stability. The IMF prioritizes promoting good governance when offering policy advice, financial support, and technical assistance to its member countries. Its website offers extensive resources on topics such as anti-corruption measures and the prevention of other financial crimes.

These international anti-corruption agencies increasingly employ forensic accountants to bolster their efforts in detecting and combating corruption. Forensic accountants play a crucial role in uncovering complex financial frauds and ensuring regulatory compliance. Their specialized skills in financial analysis and investigative techniques make them invaluable in tracing illicit financial flows and providing evidence in legal proceedings. According to the latest reports, there is a growing recognition of the importance of forensic accounting within global anti-corruption frameworks, with significant employment opportunities across various international agencies (ACCA Global, 2020; BDO USA, 2023). For instance, forensic accountants have been instrumental in major fraud investigations and anti-corruption programs, contributing significantly to transparency and accountability (AICPA & CIMA, 2023).

Section 3: Mining Corruption in Developing Countries

3.1 Introduction

Corruption is an endemic problem in mining sectors of developing countries as it prevents economic progress and the sustainability of growth. Corruption risk is significant throughout the mining sector due to the high-value nature of their output, and the complex nature of mining businesses. There is a wide range of corruption risks in the mining sector, from bribery to fraud and embezzlement. Mining has been widely cited in resource-rich countries as a major driver of corruption-related complaints. This is illustrated by the fact that in 2023, mining-related corruption comprised 40% of all corruption complaints in South Africa, suggesting that comprehensive and effective mechanisms are required to address the pernicious influence of illegitimate activities on both governance and public trust. (Mining Magazine, 2024).

Mining is particularly prone to corruption due to the complex supply chains and high mineral value. The problem is compounded by the often poor regulatory systems and enforcement practices existent in many developing countries. The Organisation for Economic Co-operation and Development (OECD) has cited that corruption in critical mineral supply chains hinders sustainable development and threatens security of supply, creating a significant risk for local and global economies. (OECD Events, 2023) The World Bank's report that analyzes the artisanal and small-scale mining sector revealed an imperative to establish holistic anti-corruption strategies to mitigate the damage of corruption and to support socio-economic development in developing nations. (World Bank, 2023)

A series of recent efforts to fight corruption in the mining industry has sought to fuel these efforts with data, and the Extractive Industries Transparency Initiative (EITI) has put forward high expectations for what such data-fueled anti-corruption measures can and should do. The 2023 EITI Standard requires countries to disclose anti-corruption laws and regulations, providing citizens and stakeholders with information to hold governments and companies to account (EITI, 2023). Similarly, there is also a push for greater transparency and accountability in the mining sector demanded by international bodies and NGOs to ensure that profits from mineral wealth trickle down to local communities.

Therefore solving the problem of corruption in the mining sector is key for developing countries to sustain economic development. Enabling developing countries to better govern their natural resources and contain the worst impacts of corruption will require improved regulation, greater transparency and robust enforcement. The fact that these are continuing global priorities indicates a positive trend toward greater accountability and transparency in mining sector governance.

3.2 International Perspectives on Mining Corruption in Developing Countries

- **Organization for Economic Co-operation and Development (OECD)**

OECD issued a booklet in 2021 entitled “Frequently Asked Questions: How to address bribery and corruption risks in mineral supply chains” (OECD, 2021). In this publication, OECD took the position that the extractive sector has significant potential to boost local economies, but it is highly susceptible to corruption, with one in five foreign bribery cases occurring in this sector. Corruption can manifest during joint ventures, licensing, subcontracting, inspections, cross-border shipments, and tax collection, often involving bribes between companies, agents, and public officials. Larger companies face grand corruption¹ risks, while smaller entities are prone to petty corruption² and sexual exploitation. To mitigate these risks, OECD created the Minerals Guidance as part of the Responsible Minerals Implementation Program, which provides practical recommendations to companies in preventing violations of human rights, conflict and financial crimes through ethical mineral purchasing decisions and practices. The principles of the Minerals Guidance are as follows:

- 1. Establish strong management systems:** Develop due-diligence policies, enhance internal capacity, engage suppliers and partners, implement internal controls, ensure supply chain transparency, collect data, and set up grievance mechanisms.

¹ According to OECD, grand corruption occurs when a public official or other person deprives a particular social group of a state of a fundamental right as a result of bribery, embezzlement or other corruption offence.

² Petty corruption is everyday abuse of entrusted power by public officials in their interactions with citizens, who often are trying to access goods or services.

- 2. Identify, assess, and prioritise tasks:** Review supply chain information for red flags, conduct in-depth investigations, map circumstances of flagged operations, and prioritize risks.
- 3. Manage risks:** Report risk assessments to senior management, improve control systems, disengage from high-impact suppliers, and increase leverage to mitigate risks, while building capacity internally and with partners.
- 4. Audit control points:** Conduct independent third-party audits at key control points like refiners and smelters, gather audit findings, and recommend process improvements.
- 5. Communicate & report on due diligence:** Publicly report on due diligence policies and practices, publish supply chain risk assessments and management plans, and address stakeholder concerns while maintaining business confidentiality.

- **The World Bank Group**

The Guidance Note published by the World Bank in 2016 entitled “Integrating social accountability approaches into extractive industries projects” provides recommendations on implementing social accountability (SA) approaches in oil, gas, and mining projects, particularly for World Bank projects in the extractive industry (EI) sectors (Heller et al., 2016). Social accountability has become increasingly important in the World Bank’s work over the past two decades, with development partners recognizing the critical role of citizen voice and participation in improving governance, reducing project risk, and fostering sustainable development outcomes. This is especially crucial in countries with significant mineral wealth, where transparency, accountability, and citizen participation

are vital for growth and poverty reduction. The use of information technology has expanded the involvement of various stakeholders, particularly civil society organizations, which are adopting SA approaches to enhance transparency and participation in the EI sectors. The note includes implementation strategies, the role of the Extractive Industries Transparency Initiative (EITI), and challenges and opportunities for SA in the EI value chain. The World Bank recommends five key steps for incorporating social accountability (SA) into mining project design and implementation:

1. Identify and prioritize social accountability concerns and opportunities.
2. Assess the political, legal, and social context for social accountability.
3. Select social accountability activities according to the context.
4. Decide on implementation modalities for social accountability activities.
5. Monitor and evaluate social accountability activities.

- **Transparency International**

According to the 2019 briefing on corruption issued by the Transparency International's (TI) Anti-Corruption Helpdesk research and information hub entitled "Corruption risk mitigation in the mining sector", the mining sector is highly susceptible to corruption due to its technical complexity, connections between the private and public sectors, and significant revenues (Zúñiga, 2019). To address these risks, effective mitigation measures are necessary, starting with proper identification and assessment of corruption risks. TI recommends the following practices to be adopted by all parties involved in the mining contract to mitigate corruption risk in mining contract awards:

1. **Create a transparent and fairer contract negotiation and licensing process:**

To prevent corruption in mining contracts and negotiations, governments can

- involve experts, ensure access to critical data, make all stages of the bidding process transparent, manage conflicts of interest, and use tools like the MACRA to identify and assess corruption risks.
2. **Ensure transparency on beneficial ownership:** To provide clear identification of who owns what, governments can implement integrity screening, criminalize illicit influence, require and verify owner disclosures, define key terms, and adopt a tiered screening approach based on risk profiles.
 3. **Promote business integrity:** Businesses can mitigate corruption risks in securing mining rights by understanding their operating environment, conducting due diligence on third parties, and embedding anti-corruption and transparency standards, guided by resources from Transparency International.
 4. **Have an adequate legislative, regulatory and governance framework:** To mitigate risks from inadequate legislative, regulatory, and governance frameworks in the licensing process, the OECD suggests governments establish clear rules, strengthen oversight institutions, ensure parliamentary oversight, and mandate independent monitoring, while criminalizing foreign bribery can reduce bribes by foreign companies.
 5. **Prevent illicit influence and conflict of interest:** To mitigate risks from political interference and public-private collusion, strict rules such as a cooling-off period for former officials and rigorous anti-corruption safeguards for extractive joint ventures should be enacted.

- **The United Nations Office on Drugs and Crime (UNODC)**

Corruption is a complicated issue that impacts every country, affecting social, political, and economic aspects. It weakens democratic institutions, slows down economic growth, and causes government instability. Corruption disrupts democracy by distorting elections, undermining the rule of law, and creating unnecessary bureaucratic hurdles designed to solicit bribes. Economic progress is hampered as foreign investments are deterred and small businesses struggle with the extra "start-up costs" imposed by corruption.

The United Nations Convention against Corruption is the only global legal framework to combat corruption. Its extensive scope and binding requirements make it a powerful tool for addressing this worldwide issue comprehensively. The Conference of the States Parties (COSP) is the main body that oversees the Convention, helping member states and signatories implement its measures and guiding the UNODC in its anti-corruption efforts. States' implementation of the Convention is assessed through a unique peer-review system called the Implementation Review Mechanism. To help countries fully adopt the Convention, the UNODC provides technical support in various areas related to corruption, such as prevention, education, asset recovery, and maintaining integrity in the criminal justice system.

- **International Monetary Fund (IMF)**

According to a 2014 technical note issued by the Legal department of the IMF entitled "Implementing anti-money-laundering (AML) and combatting the financing of terrorism (CFT) measures in the precious metals sector: preventing crime while increasing

revenue”, there are six recommendations for the precious minerals sector (Mathias et al., 2014):

- 1. Assessing risks and applying a risk-based approach:** National authorities should allocate more resources to monitoring the precious minerals sector if it is identified as high-risk.
- 2. Customer Due Diligence (CDD) for precious minerals dealers:** Dealers must perform CDD measures for any cash transaction equal to or above USD/EUR 15,000. This includes knowing their customers and collecting enough information to ensure the transaction is legitimate.
- 3. Reporting suspicious transactions:** Precious minerals dealers must report any suspicious transactions to authorities. If they suspect or have reasonable grounds to believe that funds are from criminal activity or related to terrorist financing, they must inform the financial intelligence unit for further analysis.
- 4. Regulation and monitoring of dealers:** Dealers should be regulated and monitored for compliance with AML/CFT requirements, such as CDD, record-keeping, and reporting. Criminals or their associates should not be accredited, licensed, or allowed to own or manage a precious minerals dealership, assessed through a "fit and proper" test.
- 5. Cross-border transportation of cash and bearer negotiable instruments:** Measures should be in place to detect the cross-border transportation of cash and negotiable instruments. Countries may classify precious minerals as negotiable instruments, requiring people carrying them to declare or disclose them.

- 6. Guidelines and feedback:** Competent authorities should provide guidelines and feedback to precious minerals dealers, including input from their supervisors.

Section 4: Focusing on Mongolia

4.1 Political and Economic History of Mongolia

Mongolia's economic and political history has undergone significant transformations over the centuries, influenced by its geographical position and external powers. In this subsection, we explore the key developments in Mongolia's economic and political landscape.

Early political history

Mongolia's early political history is distinguished by the emergence of the Mongol Empire under Genghis Khan in the 13th century. This period positioned Mongolia as a formidable power, extending its influence across Asia and Europe. However, the empire's decline in the 14th century resulted in political fragmentation and the emergence of local khanates (Otter-Barry, 1914).

20th century political changes

In the early 20th century, Mongolia underwent significant political turmoil. Following its declaration of independence from the Qing dynasty in 1911, Mongolia established a theocratic government under the Bogd Khan. However, this regime was short-lived due to internal conflicts and external pressures from Soviet Russia and China. In 1921, the Mongolian People's Party, with Soviet support, assumed power, leading to the establishment of the Mongolian People's Republic in 1924. This initiated a socialist era characterized by one-party rule and central planning, closely aligned with the Soviet Union (Otter-Barry, 1914).

Economic developments in the 20th century

During the socialist period, Mongolia's economy was centrally planned, with a focus on agriculture, mining, and animal husbandry. The Soviet Union provided significant economic aid, facilitating the development of infrastructure and industries. Despite these efforts, the economy remained relatively underdeveloped and heavily reliant on Soviet support (Jeffries, 2007).

Transition to a market economy

The collapse of the Soviet Union in 1991 profoundly affected Mongolia, prompting a transition to a multi-party democracy and a market economy. This shift involved significant economic reforms, the privatization of state-owned enterprises, and efforts to attract foreign investment. Although the initial years of transition were marked by economic hardship, Mongolia gradually stabilized and achieved growth, driven primarily by the mining sector (Jeffries, 2007).

Recent political and economic trends

In recent years, Mongolia has continued to advance its political institutions and economy. Despite experiencing periodic political instability, its democratic processes have remained robust. Economically, Mongolia's abundant mineral resources, including coal, copper, and gold, have been crucial. The mining sector attracts substantial foreign investment, driving economic growth. However, Mongolia faces challenges such as economic dependence on mineral exports, environmental concerns, and the need for economic diversification (Jeffries, 2007).

Mongolia's economic and political history reflects a journey from a powerful empire to a socialist state and, more recently, a democratic and market-oriented society. The country's strategic location and rich natural resources continue to shape its economic and political trajectory.

4.2 Mongolia's Anti-Corruption Framework

In his article, Dashpurev (2024) commented that the Mongolian government has taken decisive steps to address corruption within the strategic minerals sector in response to the coal theft case and other significant corruption scandals (Dashpurev, 2024). This wave of corruption cases, which included the Erdenet Copper Mine, the Development Bank, and the Education Loan Fund, prompted substantial amendments to the criminal laws in December 2022. These amendments focused on imposing harsher sentences and extending the statute of limitations for major corruption crimes, aligning with public demands for stricter penalties.

The government's 2023 anti-corruption plan aims to tackle systemic corruption through transparency, accountability, and inclusiveness, following recommendations from Transparency International. This plan is part of Mongolia's third National Anti-Corruption Plan, succeeding those from 2002 and 2016. An independent assessment revealed that 75% of the objectives from the second plan were achieved. The 2023 plan emphasizes systemic measures over prosecuting individual cases.

Additionally, 2023 was declared the "year of fighting corruption," introducing initiatives like whistleblowing, enhancing transparency in public offices, and targeting illegal appointments and assets obtained through corruption. These efforts include

operations to extradite corrupt individuals abroad and disclose classified contracts related to infrastructure projects involving Erdenes Tavantolgoi (ETT).

Mongolia has developed robust legal frameworks and institutions to combat corruption, including two Anti-Corruption Laws (1996, 2006), the Transparent Account Law (2014), and the Law on Avoiding Conflicts of Interest in the Public Service (2012). Despite these measures, enforcement remains a significant challenge. The Independent Authority Against Corruption, established in 2007 following the adoption of the UN Convention against Corruption, has faced difficulties due to potential biases and lack of independence.

Public awareness of corruption in Mongolia is high, with Transparency International consistently ranking Mongolia poorly on the Corruption Perceptions Index. The Organisation for Economic Co-operation and Development (OECD) also reports that anti-corruption measures have often failed due to poor implementation. Experts argue that improving the independence and capacity of the anti-corruption agency is crucial for better enforcement of existing rules. However, recent amendments to Mongolia's anti-corruption law have increased the prime minister's control over the agency, raising concerns about its independence.

4.3 The Impact of Mining Corruption on the Environment, Human Rights, and Living Standards

Mining activities in Mongolia have profound effects on human rights, the environment, and living standards. This subsection examines recent research findings that highlight the interplay of mining corruption with these critical issues.

Human rights impacts

Corruption in the mining sector significantly impacts human rights in Mongolia. According to Freedom House (2022), corruption is pervasive and has escalated with increased state involvement in mining activities. This corruption undermines governance and legal systems, leading to human rights violations such as the displacement of communities and lack of access to fair compensation for affected populations (Freedom House, 2022).

Moreover, the Human Rights and Development Center in Mongolia reports that civil society participation in monitoring mining activities is crucial to ensuring safe living environments. However, corruption often hinders these efforts, exacerbating human rights abuses and limiting the effectiveness of public monitoring (WWF, 2023).

Environmental consequences

Environmental degradation is a direct consequence of mining corruption in Mongolia. Mining operations, particularly those related to coal, have led to significant environmental crises. The Asian Studies article highlights how government corruption exacerbates environmental standards violations, resulting in severe ecological damage and public health issues (Asian Studies, n.d.). This includes contamination of water sources, deforestation, and air pollution, which have long-term detrimental effects on the environment and human health.

Additionally, the European Bank for Reconstruction and Development (EBRD) underscores the importance of environmental and social management systems (ESMS) in

mining operations to mitigate these impacts. However, the effectiveness of such systems is often compromised by corrupt practices that prioritize short-term gains over sustainable development (EBRD, 2022).

Living standards and economic disparities

Mining corruption contributes to widening economic disparities and deteriorating living standards in Mongolia. Corruption diverts resources away from public services and infrastructure development, leading to inadequate healthcare, education, and housing for the population. The U.S. Embassy in Mongolia's investment climate statement reveals that corruption-related conflicts and inadequate enforcement of mining standards result in significant economic inefficiencies and reduced quality of life for many Mongolians (U.S. Embassy, 2023).

Furthermore, research by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) emphasizes that the most significant human rights issues in Mongolia stem from environmental degradation and economic inequities driven by corruption. These factors create a vicious cycle where impoverished communities are further marginalized, exacerbating social tensions and instability (UNESCAP, 2018).

The above mentioned research underscores the profound negative impacts of mining corruption on human rights, environmental sustainability, and living standards in Mongolia. Addressing these issues requires robust anti-corruption measures, enhanced public monitoring, and the implementation of sustainable mining practices. By doing so,

Mongolia can work towards ensuring that its natural resources contribute to equitable and sustainable development.

4.4 Anti-Corruption Agencies in Mongolia

Corruption has been a significant challenge for Mongolia, affecting its governance, economic stability, and public trust. In response, several anti-corruption agencies have been established and are actively working to combat corruption. This subsection highlights the key local and international anti-corruption agencies in Mongolia and their recent efforts.

Local Anti-Corruption Agencies

1. Independent Authority Against Corruption (IAAC)

The Independent Authority Against Corruption (IAAC) is the primary body responsible for investigating and prosecuting corruption in Mongolia. Established in 2006, the IAAC plays a crucial role in enforcing anti-corruption laws and promoting transparency in government operations. The IAAC has been active in high-profile cases, including the arrest of a former Prime Minister in 2019 for corruption charges. This demonstrates its commitment to holding even top officials accountable (Xinhua, 2019).

2. National Anti-Corruption Council

The National Anti-Corruption Council is another significant entity working alongside the IAAC. It focuses on developing and implementing national anti-corruption strategies and policies (IAAC, 2023). The Council recently unveiled a comprehensive national anti-

corruption strategy for 2030, aiming to combat corruption across all facets of Mongolian public life (PR Newswire, 2023).

3. Public Prosecutor's Office

The Public Prosecutor's Office works in conjunction with the IAAC to prosecute corruption cases. This office ensures that legal actions are taken against those found guilty of corrupt practices. There have been notable changes in leadership within the anti-corruption agency, indicating ongoing efforts to strengthen the fight against corruption. For instance, the head and deputy head of the IAAC were removed from their posts in 2023 to enhance the agency's effectiveness (USAID, 2023).

International Anti-Corruption Agencies

Mongolia has also received substantial support from international organizations in its fight against corruption. The United Nations Office on Drugs and Crime (UNODC) and the United States Agency for International Development (USAID) have been pivotal in providing technical assistance and strategic support.

1. United Nations Office on Drugs and Crime (UNODC)

The UNODC has been instrumental in helping Mongolia develop robust anti-corruption frameworks and preventive measures. A significant milestone was the Corruption Prevention Workshop held in March 2024, which highlighted Mongolia's commitment to enhancing its anti-corruption measures with international support (UNODC, 2024).

2. United States Agency for International Development (USAID)

USAID has supported various initiatives aimed at improving Mongolia's legal and institutional frameworks to combat corruption. USAID's strategic framework for 2023 included significant provisions for enhancing the capacities of Mongolia's anti-corruption institutions, reflecting a continued commitment to supporting Mongolia's anti-corruption efforts (USAID, 2023).

Mongolia's fight against corruption is marked by the active involvement of key anti-corruption agencies like the IAAC, National Anti-Corruption Council, and the Public Prosecutor's Office, supported by international partners such as the UNODC and USAID. Despite these efforts, Mongolia continues to face challenges in its anti-corruption endeavors. Issues such as limited resources, political interference, and entrenched corruption practices pose significant hurdles. However, the recent strategies and international collaborations provide a hopeful outlook for more effective corruption control in the future.

4.5 Past and Present Cases of Mining Corruption in Mongolia

4.5.1 The “Coal Theft” Case

In 2022, allegations arose regarding the illegal transportation of coal across the Chinese border involving the state-owned Mongolian company Erdenes Tavan Tolgoi (ETT) (Dashpurev, 2024). The Mongolian government initially claimed that large quantities of coking coal had been illicitly imported into China without proper documentation, triggering public outrage and mass protests. Consequently, Mongolia's Independent Authority Against Corruption launched an investigation.

Accounts of the specifics varied significantly, with discrepancies in the reported amounts of stolen coal and their estimated value. MP Dorjkhand Togmid estimated a loss of 41 trillion Mongolian tugrik (around USD 11 billion) over a decade, while former MP Enkhbold Luvsan reported different figures, noting long-term theft from the Tavan Tolgoi deposit since 2010. However, Chief Cabinet Secretary Amarbayasgalan Dashzegve downplayed these claims, suggesting only 300,000 tonnes were unregistered between 2013 and 2019.

A central allegation involves the undervaluation of coal in contracts, particularly with Mongolian corporation Bodi International LLC, which supposedly sold coal below market price. Additionally, transportation companies were accused of embezzling coal and inflating transport costs. ETT exported coal to China using two routes, with the shorter route involving an interim stop at Tsagaan Khad in Mongolia, which often resulted in lower transaction prices compared to direct routes.

The government alleged the existence of a "coal mafia" involving high-level officials and public employees. The anti-corruption agency identified several high-profile suspects, including MPs, a minister, the ETT CEO, and customs officials, with two MPs suspended and another resigning.

The Judicial Council of Mongolia later rebranded the investigation as the "coal" case, emphasizing it as a criminal matter. They reported that 378 individuals were under investigation, with 63 facing criminal charges, including bribery, abuse of power, unlawful enrichment, and money laundering. Several cases were heard in local criminal courts, resulting in convictions for corruption and related crimes. The investigations resulted in the following legal proceedings and charges:

- Eight criminal cases involving 63 individuals were transferred to first-instance criminal courts, with five cases decided.
- The Khanbogd Soum Criminal Court and Songino Khairkhan District Criminal Court found the accused guilty of bribery, abuse of official positions, and unlawful enrichment.
- Former ETT CEO Gankhuyag Battulga and 11 others faced additional charges of money laundering.
- ETT was accused of undervaluing coal in offtake contracts with Bodi International LLC and overvaluing transportation services in collusion with transport companies.

4.5.2 Oyu Tolgoi Mine Corruption Scandal

The Oyu Tolgoi mine, located in South Gobi, Mongolia, is one of the world's largest gold and copper deposits and represents the largest investment project in Mongolia, valued at approximately USD 12 billion. (Kalcheva, 2021) Founded in 2001 and launched in December 2010, the mine is operated by Oyu Tolgoi LLC, a joint venture between the Mongolian state-owned Erdenes Oyu Tolgoi LLC (34%) and Rio Tinto subsidiary Turquoise Hill Resources (66%). Open pit mining began in 2010 with an initial investment of USD 6 billion, and the first production was exported in 2013. The second phase, involving underground construction, started in 2016, with sustainable production expected between October 2022 and June 2023.

In December 2015, the project secured USD 4.4 billion in investments from international commercial and development banks, with significant contributions from the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), each providing loans exceeding USD 1.4 billion. Both institutions have played a role in monitoring the mine's environmental, social, health, and safety standards.

Promoted as a world-class, sustainable, and energy-efficient project, Oyu Tolgoi is expected to significantly boost Mongolia's GDP through tax revenues, job creation, educational investments, and local spending. Notably, Rio Tinto's efforts in water conservation have been highlighted, with the mine utilizing less than 20% of the Guni Hooloi aquifer and recycling over 84% of its water annually since 2014.

However, these claims are contentious. While Mongolia's GDP surged by 17.3% in 2011, it plummeted to 1.1% in 2016, leading to a bailout from the International Monetary Fund in 2017. Additionally, Oyu Tolgoi LLC has been criticized for its lack of transparency in reporting water usage and recycling data, raising concerns about the mine's environmental sustainability. The Mongolian government's Orkhon-Gobi pipeline project, intended to supply water from the Orkhon River to the Oyu Tolgoi region, further questions the sustainability of the mine's water use.

According to Reuters news article dated March 19, 2018, Switzerland's highest court upheld the seizure of \$1.85 million from Swiss bank accounts linked to former Mongolian finance minister Bayartsogt Sangajav, involved in a corruption probe. The Swiss Office of the Attorney General (OAG) continued its investigation, suspecting that Bayartsogt received \$10 million in bribes linked to the 2009 Rio Tinto mining investment pact for the Oyu Tolgoi project. The ruling indicated strong evidence of money laundering, rejecting the account holder's claims of insufficient suspicion and jurisdiction issues. The probe was in its early stages, with Mongolian anti-corruption authorities also investigating multiple cases involving Bayartsogt. (*Swiss Seize Bank Accounts amid Probe Linked to Rio Tinto Mongolia Mine - MINING.COM, n.d.*)

On January 29, 2019, Reuters reported that Mongolia's anti-corruption body was collaborating with international investigators on a financial investigation into the Oyu Tolgoi copper mine project after the re-arrest of former finance minister Bayartsogt Sangajav. The probe focused on alleged abuse of power and financial misconduct during the 2009 investment agreement negotiations. Bayartsogt was suspected of holding shares in a foreign company and profiting from their sale post-agreement. Six individuals were

under investigation, with Bayartsogt then in custody. The Swiss OAG was separately investigating a \$10 million transfer to Bayartsogt's account in 2008, believed to be linked to the corruption case. (*Mongolia, Overseas Investigators Probe Oyu Tolgoi Corruption Claims as Ex-Minister Re-Arrested* | Reuters, n.d.)

The financial investigators in this case, both local and foreign, were essentially forensic accountants who traced the flow of the \$10 million, analyzing transactions for signs of money laundering, and providing expert testimony on financial irregularities. They helped uncover the financial trails, assessed the legitimacy of transactions, and supported the investigation by interpreting complex financial data and linking it to potential acts of corruption.

4.6 Case Analyses – The Role of the Forensic Accountant in Mongolia

In the first "Coal Theft" case, there were critical discrepancies in the reported quantities of stolen coal and its estimated value. This indicates the absence of a qualified expert to investigate and accurately value the losses incurred over more than a decade. The absence of in-house forensic accountants in the government and corporations highlights a pressing need for forensic accounting expertise in Mongolia.

Given Mongolia's heavy reliance on mining resources for its economy, the detection, identification, investigation, and prosecution of mismanagement and misappropriation of minerals are crucial. Forensic accountants are essential in these efforts. Although forensic accounting practices emerged in the West in the 1980s, they remain a novel concept in economically smaller, developing countries like Mongolia.

The Independent Authority Against Corruption (IAAC), Mongolia's government anti-corruption agency, conducted the investigation. An examination of the agency's organizational structure reveals that the Finance and Economics division is part of the Administration department, while the Investigation department consists solely of the Inquiry Division and the Operations department includes three units. The absence of accounting professionals within the Investigation and Operation departments indicates absence of forensic accountants at the IAAC.

Despite the IAAC's success in identifying suspects, investigating high-profile cases, and prosecuting wrongdoers, the agency faces challenges due to potential biases and a lack of independence. The absence of forensic accountants signifies a deeper issue: the lack of financial expertise in these investigations likely contributes to the disputes over the valuation of the stolen coal losses. Forensic accountants would provide the necessary financial, accounting, investigative, and legal expertise to enhance the integrity and effectiveness of these high-profile investigations.

The second corruption case, related to the 2009 Oyu Tolgoi mining investment agreement negotiations, was the subject of a comprehensive financial investigation carried out by a coalition of local and international investigators. This investigation was spearheaded by the Independent Authority Against Corruption (IAAC), in collaboration with foreign entities. Although the IAAC spokeswoman did not specify the countries involved, it is plausible that key international anti-corruption agencies active in Mongolia, such as the United Nations Office on Drugs and Crime (UNODC) and the United States Agency for International Development (USAID), were partners in this effort.

These international agencies employ forensic accountants who scrutinized the share sale by the former finance minister for indications of insider trading. Concurrently, the Swiss Office of the Attorney General (OAG) was investigating a \$10 million transfer to Bayartsogt's account in 2008, believed to be linked to the corruption allegations. The Swiss government likely utilized forensic accountants to trace the flow of these funds, analyze transactions for irregularities, and provide compelling evidence of money laundering.

This case underscores the need for enhanced collaboration between local anti-corruption agencies in Mongolia and international counterparts to leverage shared resources and expertise. Moreover, these partnerships present an opportunity to expand the practice of forensic accounting in Mongolia, further strengthening the country's ability to combat financial corruption effectively.

4.7 The Future of the Forensic Accountant in Mongolia: Opportunities

Recent corruption scandals in Mongolia highlight that corruption is a systemic problem that extends from the realms of mineral supply chain to the government, corporations and the society as a whole. There are many fundamental challenges underlying the mining corruption issue in Mongolia. But it also reveals opportunities for forensic accounting to develop as an important practice and for a forensic accountant to emerge as a specialized professional to assist in enhancing the financial transparency and accountability of the mining sector.

- **Enhance record-keeping and adequacy of databases**

According to Dashpurev (2024), the mining industry lacks transparency because of poor record-keeping and inadequate databases (Dashpurev, 2024). He noted that in the “Coal Theft” case, “Officials lacked essential data on ETT’s coking coal operations, including production totals, on-site quantities, transportation volumes, exports, inventories at the intermediary border point, wastage figures, registered coal sorts, even numbers of coal trucks leaving for repair without a load” (p. 14). The role of a forensic accountant will be essential in a project for designing and implementing information and resource management systems in the mining sector with their financial expertise and knowledge of preventative controls.

- **Support impartial legal assessments**

Dashpurev (2024) noted that numerous corruption scandals have fostered public perceptions that instinctively associate high-ranking politicians and business leaders with these cases. This irrational expectation has subsequently exerted public pressure on anti-corruption agencies, the prosecutor’s office, and the Judicial Council of Mongolia, complicating the ability to conduct impartial legal assessments. A forensic accountant can provide the court with an independent, impartial, and objective evaluation of an investigation, thereby supporting the integrity and fairness of the legal process.

- **Increase investigation and prosecution capacity**

According to Dashpurev (2024), the “Coal Theft” case exposed significant deficiencies in Mongolia's capacity to investigate and prosecute corruption within the mineral sector. Despite public outcry and subsequent amendments to the criminal code to

impose harsher penalties for corruption, the case has not been managed effectively or strategically under the legal framework. The accused ranged from various levels of society, including truck drivers, ministers, business owners, politicians, and border militia members, with allegations extending beyond corruption to include embezzlement, money laundering, tax evasion, and smuggling. Jurisdictional confusion and inadequate coordination among investigative and prosecutorial agencies led to incomplete and inconsistent charges. Crucial evidence was overlooked, and local authorities were often in conflict with the anti-corruption agency, further undermining the effectiveness of the investigation. This case highlights significant institutional gaps and a lack of inter-agency collaboration, impeding Mongolia's efforts to combat corruption effectively. Forensic accountants can play an important role in increasing the state's investigation and prosecution capacity through providing financial, investigative and legal expertise.

- **Design and implement preventative and detective controls**

IFA should actively participate in and oversee the design, creation, and implementation of controls aimed at preventing corrupt activities throughout the mining supply chain in Mongolia. The IFA can provide advisory services to law enforcement, identifying red flags and irregularities in organizational transactions and financial affairs, ensuring that potentially fraudulent activities are detected and investigated promptly.

- **Compliance measures**

IFA should play a proactive role in assessing and monitoring compliance with the laws and regulations governing mining resource management. This involves conducting comprehensive audits and reviews to ensure adherence to legal standards and identifying

any discrepancies or violations by mining companies. By doing so, the IFA can help mitigate risks associated with non-compliance, such as legal penalties, financial losses, and reputational damage. Furthermore, the IFA can provide ongoing training and support to mining companies to enhance their understanding of regulatory requirements and foster a culture of ethical conduct and accountability within the industry.

- **Engage in capacity building exercises**

World Bank's 2020 Global Report on Enhancing Government Effectiveness and Transparency defines corruption as a systemic issue by stating that "In many societies corrupt behavior is deeply rooted in the historical origins, social norms and political culture." (p. XV) To address this pervasive social problem, a new thinking has evolved among anti-corruption analysts and practitioners called "collective action" (Williams, 2021). This new thinking calls for changing people's attitudes about corruption and creating alternatives to using corruption to solve problems. The IFA can participate in this new initiative through capacity building exercises such as providing ongoing training and support to government auditors and law enforcement officers. This will help the IFA to train the local professionals in preventing and detecting illicit activities and to set an example of honesty and integrity.

- **Incorporate local knowledge**

Research from Canada's International Development Research Centre shows that local knowledge is crucial to creating an innovative solution to a development problem. (Williams, 2021) IFA should not only conduct formal interviews for investigations, but also have informal conversations with local citizens, including law enforcement officers

and public auditors. This approach allows the IFA to gain insights into social norms and customary practices that may present potential loopholes. By integrating local perspectives, the IFA can more effectively identify and address areas of vulnerability when conducting investigations within the mining sector.

4. Conclusions

The mining industry in developing countries, particularly in Mongolia, faces significant challenges due to pervasive bribery and corruption. This research project has highlighted the critical role that Investigative and Forensic Accountants (IFAs) play in detecting, investigating, and preventing these illicit activities. The findings underscore the need for more forensic accountants and enhanced forensic accounting practices to mitigate the adverse effects of corruption on economic development and social stability.

Summary of Key Findings

Bribery and corruption in Mongolia's mining sector have been facilitated by weak regulatory frameworks, insufficient enforcement mechanisms, and the complicity of political and corporate elites. These issues not only deprive the local population of the benefits from their natural resources but also threaten the country's economic progress and environmental sustainability.

The involvement of multinational corporations in mining operations often exacerbates the situation, as they exploit the regulatory gaps in developing countries. The cases of Bulyanhulu gold mine in Tanzania and Gécamines in the Democratic Republic of Congo illustrate the extensive financial mismanagement and corrupt practices that can occur in the absence of robust oversight.

Mongolia's unique socio-economic and political landscape makes it a particularly relevant case study. The country has experienced significant mining-related corruption, as evidenced by scandals involving major players like Erdenes Tavan Tolgoi and Oyu

Tolgoi. These cases have highlighted systemic issues such as opaque licensing processes, regulatory loopholes, and the undue influence of political elites.

The Role of Investigative and Forensic Accountants

IFAs possess specialized skills that are crucial for uncovering complex fraudulent schemes in the mining sector. Their expertise in financial statement analysis, transaction tracing, and data analytics enables them to identify and investigate bribery and corruption more effectively than traditional auditors or compliance officers. The paper emphasizes the need for more IFAs to be integrated within both governmental and corporate structures to ensure thorough and independent investigations.

In the future, the role of IFAs is expected to expand as more corporations and governments recognize the importance of forensic accounting in combating financial corruption. This includes not only reacting to fraudulent activities but also proactively designing and implementing preventive controls. Advanced technologies such as data mining and artificial intelligence will further enhance the capabilities of forensic accountants, enabling them to tackle increasingly sophisticated fraudulent schemes.

Recommendations for Strengthening Anti-Corruption Efforts

To combat mining-related corruption in Mongolia and other developing countries, the following recommendations are proposed:

- 1. Strengthening regulatory frameworks:** Developing comprehensive and transparent regulations that close existing loopholes and ensure strict compliance with anti-corruption standards.

2. Enhancing enforcement mechanisms: Empowering anti-corruption agencies with the necessary resources and independence to conduct thorough investigations and prosecutions.

3. Integrating forensic accountants: Mandating the inclusion of IFAs in both public and private sector audits to ensure the detection and prevention of financial misconduct.

4. Promoting transparency and accountability: Encouraging the adoption of international transparency initiatives such as the Extractive Industries Transparency Initiative (EITI) to foster greater accountability in the mining sector.

5. Leveraging technology: Utilizing advanced data analytics and artificial intelligence tools to identify and monitor suspicious activities in real-time.

6. Public awareness and education: Conducting public awareness campaigns and educational programs to inform citizens about the impact of corruption and the importance of ethical practices.

Addressing bribery and corruption in Mongolia's mining sector is crucial for the country's sustainable development. By strengthening the role of forensic accountants and implementing robust anti-corruption measures, Mongolia can enhance its regulatory environment, protect its natural resources, and ensure that the benefits of mining are equitably distributed among its population. The insights and recommendations provided in this research paper aim to contribute to the ongoing efforts to combat corruption and promote transparency in the global mining industry.

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