

# Illicit Financial Flows from Illegal Mining

## What is Illegal Mining?

- ⇒ The illegal extraction and trade of minerals including the illegal use of toxic chemicals such as cyanide and mercury in mining activities.
- ⇒ Mining activity that takes place without state permission, for example, the absence of land rights, mining licences and exploration or mineral transportation permits.
- ⇒ Mining activity with state permission obtained through corruption.



## Trends & Activities Identified in Illegal Mining

- ~ In most cases, organized criminal groups are usually the perpetrators of the illicit trade of gems and precious metals.
- ~ The increase in gold demand has acted as a 'pull factor' for criminals in the region including organized crime groups which are also involved in human trafficking, human rights abuse and financial crimes.
- ~ Criminal networks involved in illegal mining are often involved in other types of economic crime such as money laundering, extortion, forging licences, permits and inspections, tax evasion, fraud, corruption, the creation of shell companies and smuggling of illegal migrants.



## Factors Facilitating Illegal Mining

### 1. Institutional Weakness:

- ◆ The lack of policy and institutional framework to combat illegal mining.
- ◆ Non-compliance with laws and policies to combat illegal mining.

### 2. Corruption:

- ◆ Mechanisms which enable criminal groups to access mines, transport cash, smuggle gold and other illegal activities.

### 3. Cash-based Economy:

- ◆ The use of businesses like pawn shops, supermarkets and motels where it is easy to falsify transactions.

### 4. High levels of Informality:

- ◆ Many artisanal and small-scale miners operate informally.

### 5. Poverty:

- ◆ Takes advantages of a labour source that is willing to work for minimal wages.
- ◆ Lack of financial inclusion which prevents the detection of suspicious activities.

**NOTE:** Illegal mining falls under the category of environmental crime, which is one of the Financial Action Task Force's (FATF's) Designated categories of offences.

## IN THIS ISSUE

- ⇒ What is Illegal Mining?
- ⇒ Trends & activities identified in illegal mining.
- ⇒ Factors facilitating illegal mining.
- ⇒ Laundering circuits associated with illegal gold production (Gold & Money Circuits)
- ⇒ Measures to combat illegal mining.

## DID YOU KNOW?

- ❖ Illegal mining generates approximately \$12-\$48 billion USD per year.
- ❖ Illegal gold mining activity in Colombia is estimated to account for upwards of 80% of gold production in the country.
- ❖ The laundering of illegal mining proceeds through Money Transfer Agencies is a main typology identified in Guyana.

# Laundering Circuits Associated With Illegal Gold Production

Illegal gold mining requires two (2) processes or laundering circuits to give it the appearance of legality:



## GOLD CIRCUIT

- ★ The origin of the gold is laundered.
- ★ Most of the financial operations are carried out in cash.
- ★ Criminal groups can bring funds into the exploitation zone through:
  - legal companies run by the same criminal organizations; or
  - front companies created to simulate operations that require the handling of large amounts of cash.
- ★ Consolidation of gold directly or through third parties to appear legitimate.
- ★ The main objective is to give the appearance of legality to illegally-mined gold.



## The Gold Circuit and The Money Circuit.

## MONEY CIRCUIT



- ❖ The monetary profits from its sale are laundered.
- ❖ Illegal gold is collected, transported and sold to intermediary markets mainly through front or shell companies.
- ❖ Companies issue certificates that will allow the gold to be exported to buyer markets.
- ❖ Once the illegal gold is exported, the companies use financial cycles by utilizing accounts in tax havens or countries with low controls for cash transport.
- ❖ The illicit funds are used to sustain the criminal organization and for reinvesting in illegal gold mining.



## Measures to Combat Illegal Mining

1. Identification of red flags and typologies used by criminal organizations;
2. Identification of vulnerabilities in the minerals supply chain prone to crime and corruption;
3. Promotion of capacity building to increase prevention and interdiction of illicit trafficking in precious metals;
4. Strengthening international cooperation: MOUs (Memorandum of Understanding) and bilateral cooperation;
5. Creating inter-agency processes to share information and coordinate actions at the national level;
6. Ensuring that AML/CFT/CPF authorities including Financial Intelligence Units (FIUs) and other Law Enforcement Agencies (LEAs) have oversight capacities to investigate and trace assets from illegal mining;
7. Improving investigation enhancing application of forensic techniques;
8. Strengthening the knowledge and expertise of the prosecutors and judges;
9. Ensuring enhanced due diligence standards for firms in the gold trade to prevent the co-opting of the legal gold sector; and
10. Re-evaluating penalties for non-compliance.



**For More  
Information**

### *References:*

- Illicit Financial Flows from Illegal Mining. CFATF Research Desk, July 2022.
- Money Laundering from Environmental Crimes, FATF (2021), Paris, France.
- On the Trail of Illicit Gold Proceeds: Strengthening the Fight against Illegal Mining Finances. OAS, 2021.
- Typologies and Red Flags Associated to Money Laundering from Illegal Mining. OAS/DTOC. 2022.