



Illicit Financial Flows from Illegal Mining

CFATF RESEARCH DESK
JULY 18TH, 2022.



What is Illegal Mining?

Sources:

(1) INTERPOL. 2022. *Illegal Mining and Associated Crimes: A Law Enforcement Perspective on One of the Most Lucrative Crimes*. Norwegian Ministry of Climate and the Environment.

(2, (3) FATF (2021), *Money Laundering from Environmental Crimes*, FATF, Paris, France

- Illegal extraction and trade of minerals, including the illegal use of toxic chemicals (such as cyanide and mercury) in mining activities. (1)
- Mining activity that takes place without state permission (absence of land rights, mining licenses, and exploration or mineral transportation permits). (2)
- Mining activity with state permission obtained through corruption. (3)
- It falls under the category of environmental crime, which is one of the FATF's Designated categories of offences.



Illicit Mining Estimates in the Americas and the Caribbean

Sources:

(1) *The Rise of Environmental Crime - A Growing Threat To Natural Resources Peace, Development And Security, A UNEP-INTERPOL Rapid Response Assessment*, published in 2016 at <https://wedocs.unep.org/handle/20.500.11822/7662>.

(2) OAS. 2021. *On the Trail of Illicit Gold Proceeds: Strengthening The Fight against Illegal Mining Finances, Peru's Case*.

(3),(4) OAS. 2021. *On the Trail of Illicit Gold Proceeds: Strengthening The Fight against Illegal Mining Finances, Colombia's Case*.

- Illegal mining generates approximately 12-48 billion USD per year. (1)
- In Peru, almost \$7 billion out of \$14.164 billion in illicit transactions detected between 2011 and 2020 were linked to illegal mining. (2)
- Illegal gold mining activity in Colombia is estimated to account for upwards of 80% of gold production in the country. (3)
- Between 2010 and 2018, trade misinvoicing in Colombia's mineral sector represented over \$5.6 billion in illicit financial flows. (4)



Illicit Mining Estimates in the Americas and the Caribbean

Sources:

- (1) [Money Transfer Agencies Typology, 2016-2018](#)
- (2) [Nearly 30% of Brazil's gold exports are illegal](#)
- (3) [Amazon Gold Rush: Gold Mining in Suriname](#)

- ML of illicit mining proceeds through Money Transfer Agencies is a main typology identified in Guyana. (1)
- Approximately 28% of Brazilian gold exports in 2019 and 2020 likely came from illegal mines. (2)
- Gold mining in Suriname increased from 4,369 hectares in 2000 to 41,136 hectares in 2014. (3)



Related Trends and Activities

- In most cases, organised criminal groups are usually the perpetrators of the illicit trade gems and precious metals.
- The increase in gold demand has acted as a ‘pull factor’ for criminals in the region, including organized crime groups also involved in human trafficking, human rights abuses and financial crimes.
- Criminal networks involved in illegal mining are often involved on other types of economic crime such as money laundering, extortion, forging licenses, permits and inspections, tax evasion, fraud, corruption, the creation of shell companies and illegal migrants. (1)
- Human rights violations occur in vulnerable communities, such as human trafficking, forced labor, child and women abuse/exploitation and sexual violence. (2)

Sources:

(1) UNODC. n.d. *Response Framework on Illegal Mining and the Illicit Trafficking of Precious Metals.*

(2) For examples, see UNODC. 2011. *Organized crime and instability in central Africa: A threat assessment.*



Factors Facilitating Illegal Mining

Sources:

OAS. 2021. *On the Trail of Illicit Gold Proceeds: Strengthening The Fight against Illegal Mining Finances, Peru's Case.*

OAS. 2021. *On the Trail of Illicit Gold Proceeds: Strengthening The Fight against Illegal Mining Finances, Colombia's Case.*

- Institutional weakness
 - The lack of policy and institutional framework to combat illegal mining.
 - Allows non-compliance with laws and policies to combat illicit mining.
- Corruption
 - Enables criminal groups to access mines, transport cash, smuggle gold and other illegal activities.
- Poverty
 - Ensures a constant labour source as many are willing to work for minimal wages.
 - Lack of financial inclusion which prevents the detection of suspicious activities.



Factors Facilitating Illegal Mining

- Cash-based economy
 - Use of businesses like pawn shops, supermarkets and motels where it is easy to falsify transactions.
- High levels of informality
 - Many artisanal and small-scale miners operate informally.

Sources:

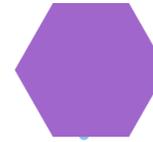
OAS. 2021. On the Trail of Illicit Gold Proceeds: Strengthening The Fight against Illegal Mining Finances, Peru's Case.

OAS. 2021. On the Trail of Illicit Gold Proceeds: Strengthening The Fight against Illegal Mining Finances, Colombia's Case.



Illicit Financial Flows Gold Circuit and Money Circuit

Source: OAS/DTOC. 2022. Typologies and Red Flags Associated to Money Laundering from Illegal Mining.



- Illicit gold mining requires two (2) processes or laundering circuits to give it the appearance of legality; (2)
 1. The gold circuit - the origin of the gold is laundered.
 2. The money circuit - the monetary profits from its sale are laundered.
- The processes are carried out, supervised and controlled by criminal organizations. (3)



Gold Circuit

- 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.



Money Circuit

- Criminal organizations launder the assets from the illegal gold circuit for appearance of legality.
- 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 into illegal gold mining.



Laundrying Circuits associated with Illegal Gold Production





Measures to Combat Illicit Mining

- Identification of red flags and typologies used by criminal organizations.
- Identification of vulnerabilities in the minerals supply chain prone to crime and corruption.
- Promotion of capacity building to increase prevention and interdiction of illicit trafficking in precious metals.
- Strengthening international co-operation: MOUs and bilateral cooperation.
- Creating inter-agency processes to share information and coordinate actions at the national level.

Sources:

FATF (2021), *Money Laundering from Environmental Crimes*, FATF, Paris, France.
OAS/DTOC. 2022. *Typologies and Red Flags Associated to Money Laundering from Illegal Mining*.



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- Ensuring that AML/CFT authorities, including FIUs, have oversight capacities to investigate and trace assets from illicit mining.
- Improving investigation enhancing application of forensic techniques.
- Strengthening the knowledge and expertise of prosecutors and judges.
- Ensuring enhanced due diligence standards for firms in the gold trade to prevent the co-opting of the legal gold sector.
- Re-evaluate penalties for non-compliance.



Thank you!



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