



Transforming natural resource management
Empowering communities

Transformer la gestion des ressources naturelles
Renforcer le pouvoir d'agir des communautés

Illicit Mineral Trade and Conflict

Joanne Lebert, Executive Director, IMPACT

Second UNCTAD Illicit Trade Forum
6-7 September 2022

IMPACT

IMPACT (NGO est. 1986) transforms how natural resources are managed in areas where security and human rights are at risk.

<https://impacttransform.org>

Focus Areas: Regulatory & Legal Reform, Gender Equality
Supply chain transparency, Illicit Trade & Financing,
& Environmental Stewardship

Expertise in Impact **Monitoring & Evaluation (M&E)** at the intersection
of trade and development.

Know the impact of your supply chain; [Bloom by IMPACT](https://www.youtube.com/watch?v=mbiUa1Txfjo);

<https://www.youtube.com/watch?v=mbiUa1Txfjo>

High Value Commodities: Gold, diamonds, tin, tungsten, coltan,
coloured gemstones & cobalt

Research: Investigatory & Learning in Action

<https://impacttransform.org/en/research/research-reports/>



SIERRA
LEONE

**Fight against
war diamonds
earns Nobel
nomination**

Ottawa group
leads battle on
conflict jewels

of conflict diamonds. Just last
week, the United Nations General
Assembly endorsed a plan
initiated by the two groups to
regulate the diamond trade.
The two-day international



**THE
JUST
GOLD
PROJECT.**
Lessons to the Future
of Artisanal Gold in
Democratic Republic of Congo



**THE
INTERMEDIARIES.**



**ALL THAT GLITTERS IS NOT GOLD:
Dubai, Congo and
the Illicit Trade of
Conflict Minerals**



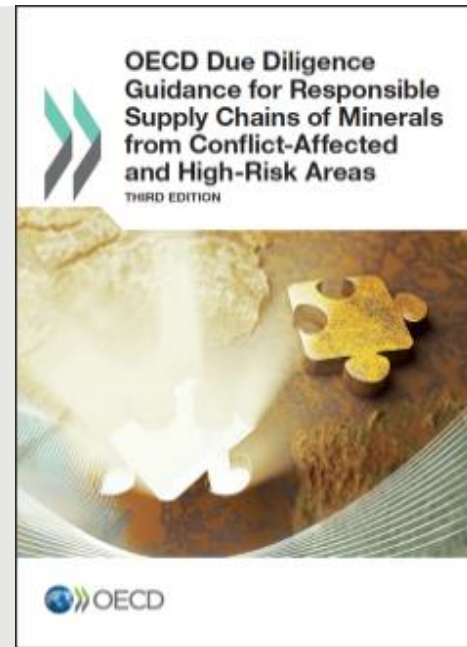
**A
GOLDEN
WEB**

I. Defining Conflict

OECD definition of conflict-affected and high-risk areas:

Presence of armed conflict, widespread violence or other risks of harm to people. Armed conflict may take a variety of forms: of international or non-international character, which may involve two or more states, or may consist of wars of liberation, or insurgencies, civil wars, etc. High-risk areas may include areas of political instability or repression, institutional weakness, insecurity, collapse of civil infrastructure and widespread violence. Such areas are often characterised by widespread human rights abuses and violations of national or international law.

Annex II risks in OECD Mineral Due Diligence Guidance (“The Floor”)



**(Outdated & Uncompromising) Kimberley Process definition has undermined scheme’s credibility
= No market assurance:**

According to the KP’s definition, **conflict diamonds are limited to rough diamonds used by rebel movements** to finance their activities aimed to undermine legitimate governments.

By using the original definition of “conflict diamonds” ignores the majority of conflict diamonds traded today—used by legitimate governments and public security forces, private military companies, and other actors for their own interests.

II. The role of high value (mineral) commodities & conflict

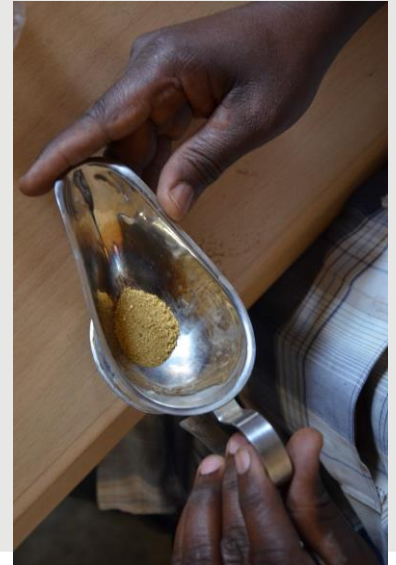
Public or Private Security Forces including terrorist groups may:

- use these minerals to finance their operations or sustain their efforts
- exploit Governance Void in mining/mining areas:
 - To launder money
 - To destabilize and secure support for their cause
 - i. Gain sympathy from population / gain recruits by, for example, providing financing/access to goods, services and income generation
 - ii. Conversely, resort to violence against population to get authorities to react

more rarely is access to/control of minerals the root cause of conflict

III. Recommendations for Targeting Illicit Mineral Trade linked to Conflict Risks

- Support Financial Inclusion for Artisanal & Small-Scale Producers
- Address Critical Gaps in Supply Chain Due Diligence & Transparency:
 - Focus on Gold Trading Hubs
 - Turn a Critical Eye to Gold Recycling
- Support Regional Approaches
- Implement Smart Sanctions that Target “Big Fish”
- Establish Public Beneficial Ownership Registries
 - but... criminals are always one step ahead



Artisanal Mining: What is it?

47.7 million people working in ASM across 80 countries worldwide

40-50 % of the ASM workforce in Africa are **women**

ASM global production: 20% of mined gold and diamonds; **15-20%** of cobalt...

OFTEN CHARACTERIZED BY:

- Informally organized ; (appears) disorganized
- Subsistence mining: Rights often severely limited - mostly unlicensed
- Harsh working and living conditions (health & safety risk)
- Low yields and low income
- Informality / 'illegality' = Vulnerability to predatory actors
 - armed groups, criminal networks, extortion, predatory lending, sexual violence, etc.
- Often alongside large-scale industrial mining
- Human rights abuses: worst forms of child labour; SGBV
- Environmental harms :Water and air pollution
- Poverty driven AND poverty alleviating.. Entrepreneurial ; important vector of development



Financial Inclusion for Artisanal & Small-Scale Miners (ASM)/Producers

The Illicit/Informal Market Thrives on Exclusion

Illicit/informal actors & terrorist groups often step in to fill a void by providing financing/access to goods & services and other forms of supports

Numerous small initiatives but not yet scalable;
The Banking Sector has yet to play its role



Know Your Competitor: Illicit Gold Traders' Offering

Illicit ASM market

- Inventory financing for: pre-purchased gold, investment in equipment & subsidence support in 'down-time'
- Ease of on-site offtake
- Offer of other goods & commodities (e.g. mercury, palm oil, etc.)
- No questions asked / No expectations
- Avoidance of fiscal & admin burden

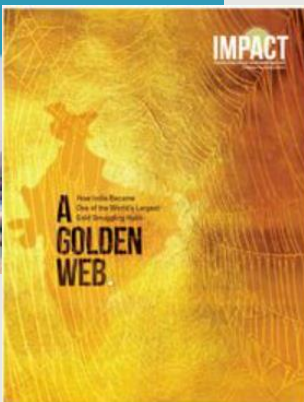
Responsible ASM market

- Promise of purchase (& premium?)
- Conditional upon meeting standards (>yields)
- No safety net if break away from existing (security?)
- Admin & Fiscal burden

Virtue is not a reward

Trading Hubs / Global Gold Centres

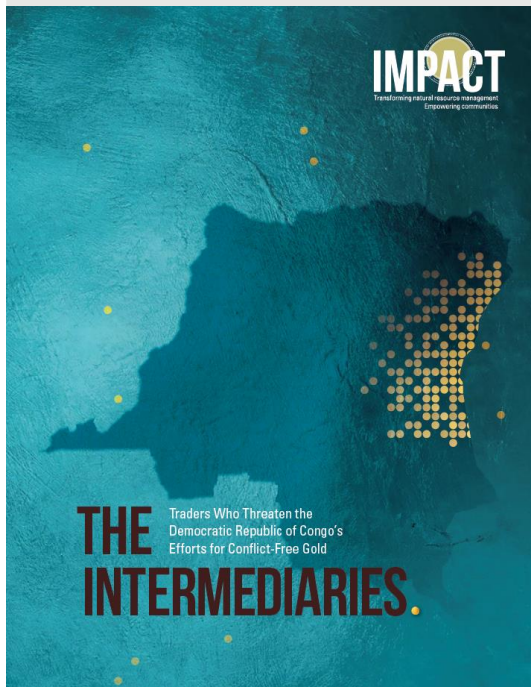
Global Interconnections



- Dubai /UAE "strategic deficiencies" [FATF](#) (2020) report
- Venezuelan gold [via Uganda](#)
- Panama Free Trade Zone...Canadian connection?
- India-Dominican Republic [A Golden Web report](#)
- Peru-Kenya-DRC [Understanding and Disrupting Key Convergence Nodes of the Illicit Gold and Mercury Supply Chains in Latin America and Africa](#) (NSF)
- Russia : strategic control of gold production + gold as a financial instrument + willing buyers = ability to avoid sanctions

Trading Hubs & Global Interconnections

Key Take Aways



- Willing buyers = Willing Traders
- Trading hubs can be interchangeable
- Large Traders constantly reinventing themselves & adapting
- Opportunism: combining high value commodities; ghost shipments...
- Weakest control points are also largest producers (Venezuela, Sudan, DRC, Mali etc.)
- As part of (OECD) supply chain due diligence, need more attention to actual production capacity of cited 'countries of origin' & misinvoicing
- Gold as financial instrument: if US currency reserves are blocked either resorting to non-dollar payment mechanisms or likely to yuan

Importance of enhancing and harmonizing regional controls

- International Conference on the Great Lakes Region
- Mano River Regional Approach
- Liptako Gourma Authority (Niger, Burkina Faso & Mali)

OECD Report on gold flows from Venezuela
<https://mneguidelines.oecd.org/gold-flows-from-venezuela-supporting-due-diligence.htm>

Recycled Gold



- 55% of LBMA refiners source recycled vs. 1% ASM (LBMA Responsible Sourcing Report 2020)
- Typically no questions asked
 - zero provenance or due diligence
- Definition is broad :
 - incl. fabrication scraps (i.e. recently mined)
 - UAE & India 's Comprehensive Partnership Agreement broadening definition (2022)
- Risk of blending with illegitimate sources / money laundering
- Capitalizing on feel-good green marketing

Smart Sanctions



- FATF : most effective pressure (e.g. Dubai 2020)
- Target large traders; known & cited e.g. [AGR/Alan Goetz](#)
- Example of ineffective & harmful sanction: [US Customs Withhold Release Order](#) targeting ASM gold from a single region

Public Beneficial Ownership Registries: the case of “Snow-washing”

Experts est. that between **\$45-\$113 billion** is laundered through Canada

Stolen funds by criminals and corrupt foreign officials, **launder money through secret shell companies** to finance their operations

Criminals avoid detection **even if they are on sanctions lists**

Money laundering of this volume **perpetuates insecurity and undermines government tax revenues worldwide & distort markets** (Canadian housing market)



End Snow-Washing Coalition Applauds Accelerated Timeline For A Publicly Accessible Beneficial Ownership Registry by 2023

Coalition has been calling upon all federal parties to fast track progress on a beneficial ownership registry as an urgent national security priority in light of the Russian invasion of Ukraine

FOR IMMEDIATE RELEASE: Toronto, March 22nd, 2022

The 'End Snow-Washing' Coalition (Transparency International Canada, Publish What You Pay Canada, and Canadians for Tax Fairness) enthusiastically applauds [the announcement](#) by the Federal Government and The New Democratic Party (NDP) to fast-track the delivery of a publicly accessible beneficial ownership registry by 2023.

"Countries around the world are picking up speed on publicly accessible beneficial ownership registries as critical tools to fight illicit financial flows, and it's great to see Canada accelerate its timeline," said James Cohen, Executive Director of Transparency International Canada. He continued, "The goal is for Canada to establish the best publicly accessible beneficial ownership registry possible."

Canada originally pledged a publicly accessible registry by 2025. This new announcement accelerates this timeline by two years.

The End Snow-Washing Coalition strongly recommends that Canada's publicly accessible beneficial ownership registry be designed with world-class open-data and deterrence features:

- No paywalls, and easily accessible for all;
- Machine readable and downloadable data;
- Staffing and mandate for a Registrar to independently verify information, collect and securely store ID, and pursue instances of non-compliance;
- Strong penalties for false declarations, including for third-parties attesting to documentation;
- Use of [Open Ownership's Beneficial Ownership Data Standard](#);
- Unique identifier numbers for all beneficial owners.

A dirt road in a tropical village with palm trees and mountains in the background. The road is muddy and has many people walking on it. There are small houses on either side of the road. The background shows lush green hills and mountains under a cloudy sky.

www.impacttransform.org

jlebert@impacttransform.org