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Department against Transnational Organized Crime

**TYOLOGIES AND RED  
FLAGS ASSOCIATED TO  
MONEY LAUNDERING FROM  
ILLEGAL MINING IN LATIN AMERICA  
AND THE CARIBBEAN**



**Cover images:**

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**OAS Cataloging-in-Publication Data**

Organization of American States. Secretariat for Multidimensional Security. Department against Transnational Organized Crime.

Typologies and Red Flags Associated to Money Laundering from Illegal Mining

p. ; cm.

ISBN 978-0-8270-7429-3

1. Money laundering. 2. Gold mines and mining--Corrupt practices. 3. Mineral industries--Corrupt practices. 4. Organized crime. 5. Transnational crime. I. Title. II. Series.

**January, 2022.**



**OAS|DTCO**

Department against Transnational Organized Crime (DTCO)  
Organization of American States (OAS)



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# PROLOGUE

We have the privilege of living in one of the regions with the greatest natural wealth and biodiversity on the planet. Since time immemorial, our region's inhabitants have marveled at the gold found in our rivers and mountains and have used it to improve their living conditions.

More recently, since the beginning of the last century, the economies of the region's countries have enjoyed significant periods of growth thanks to the extraction of minerals essential for the development of the global economy, such as coal, iron, zinc, nickel, and copper. New developments in specialized fields of technology—such as telecommunications and alternative energies—have created the need for new minerals such as gold, coltan, and lithium, increasing international metal prices. Once again, the countries of the Americas and the Caribbean see extractive mining as an important source of resources to promote their development.

Unfortunately, this growing industry is not immune to the threats that organized crime poses in our countries today. Criminal organizations have been illegally exploiting our countries' natural resources to the detriment of their societies and economies. The finances of illegal mining represent money and power for these organizations. According to the national money laundering risk assessments of Colombia, Guyana, Peru, and Suriname, illegal mining currently generates more illicit money than drug trafficking, extortion, and other illegal activities.

Our mandate in the face of these threats, from the Department against Transnational Organized Crime of the Secretariat for Multidimensional Security of the Organization of American States, is to support the Member States in identifying the elements that make us vulnerable and to promote the implementation of public policies. That will allow us to close the gaps that criminals take advantage of to get to the easy money.

The project "On the Trail of Illicit Gold Proceeds: Strengthening the Fight Against the Finances of Illegal Mining" therefore aims to support the region's countries in understanding the problem and to propose solutions based on regional and national legal instruments.

We hope that this document will serve as a tool for identifying trends and specific behavior patterns in the way in which transnational organized crime groups transform, transport, transfer, and manage resources of illicit origin in a way that facilitates the processes of detection, intelligence, investigation, and sanction.

**Gaston Schulmeister**

Director

Departament against Transnational Organized Crime

Secretariat for Multidimensional Security

Organization of American States

# INTRODUCTION

The typologies and cases assessed for this study reveal numerous key findings about the characteristics of the illegal gold trade that have enabled its dramatic growth in recent years. That growth is driven by the relatively low risk that illicit gold mining poses, the high profitability of the trade, and a proliferation of methodologies to take advantage of the multiple gaps in local, national, and international enforcement regimes. Because gold is a fungible commodity that can be used to replace cash in many financial transactions and is almost impossible to detect once it enters the world market, it has become a method of choice for many national and transnational money laundering operations. Yet, the illicit supply chain—from mining to refining to sale—is little understood. We hope the examination of the main typologies and red flags in the illegal gold trade will be a useful first step toward coordinated regional efforts to combat the gold trade's criminal aspects.

It is important to note that illegal gold mining operations do not operate in isolation, but are almost always at the center of multiple criminal networks and activities. The illicit gold supply chain, due to its characteristics as described in the typologies, often overlaps or operates parallel structures to cocaine trafficking organizations and other criminal enterprises. In order to operate, mining structures require the smuggling of mercury, heavy machinery, and other supplies, creating a chain of corruption across the entire illicit gold chain that often mirrors the corruption-dependent smuggling networks used by other criminal groups. Because the alluvial mining of illicit gold requires clear-cutting large tracts of jungle or forest, it entails enormous environmental damage; hence, environmental crimes are an integral part of the process. The widespread use of mercury, often smuggled into mining areas, contributes to long-lasting ecological damage to rivers and water systems that take generations to recover. Illegal mining camps often rely on unregistered migrants, vulnerable to exploitation, along with child labor and sexual slavery. Because of the resources available to them, illicit gold smugglers can often bribe their way out of legal entanglements, corrupting already weak judicial and law enforcement systems.



# 1 METHODOLOGY

The typologies, red flags, and example cases contained in this document were prepared from the extensive collection of information from open sources and specialized documents provided by the counterparts of the project “On the Trail of Illicit Gold Proceeds: Strengthening the Fight against Illegal Mining Finances” in Colombia, Ecuador, Guyana, Peru, and Suriname. They highlight a diverse range of money laundering methods and illicit activities across the region’s illegal gold supply chains.

Additionally, interviews were conducted with officials of public and private entities in charge of gold exploitation, regulation, and supervision, as well as with officials in charge of investigating and prosecuting illegal mining crimes and other related offenses. Further analysis of this information was conducted to identify and select cohesive typologies that represent prominent practices in the region, show the various actors and phases involved in illicit supply chains, and reflect the illegal gold trade’s shifting realities.

The red flags are elements that indicate that a transaction could possibly be related to an illegal mining operation, or to money laundering related to illegal mining. It is important to note that a red flag is not per se enough to qualify an unusual transaction as suspicious. On the contrary, determining that a suspicious transaction exists requires the concurrence of several red flags assessed in the context of the logic of the market environment and the specific profile of the clients in light of the information on the due diligence processes provided by customers.

Similarly, the example cases presented are not intended to stigmatize a particular activity or sector; or to highlight a specific case or operation. Some of them bring together elements from various cases or investigations that, due to their common characteristics or the nature of the associated operations, allow a better level of understanding of the modus operandi used. Thus, any association that could be made to a particular case or person would be mere coincidence.

# 2 ILLICIT MONEY FLOWS FROM ILLEGAL MINING

The transnational nature of the illegal gold trade is a consistent trait revealed in sprawling smuggling networks, international financial transactions, and adaptable trade flows. As it is often the case with organized crime, the illegal gold trade exploits the seams in the globalized economy to move and conceal illegal gold, mercury, explosives, and money linked to this illicit industry. Illegal gold smugglers also take advantage of poor border controls to facilitate these illicit flows within the region.

This transnational nature raises the productivity and profitability of the illegal gold trade by linking illicit actors from across the globe, bringing together drug trafficking organizations and other illicit financiers, illegal miners, smugglers, mercury producers, money launderers, unscrupulous gold traders and refineries, and other actors. Because gold can be easily converted to cash virtually anywhere in the world and because cash transactions often go unregistered in the formal financial sector, gold has become an important wealth transfer mechanism that is unrecorded in bank reporting systems and unreported by financial oversight institutions.

Gold, as a freely convertible precious metal, is an alternative to money or legal tender. Furthermore, its is an alternative that does not have limitations for its transportation or possession like cash: money of illicit origin must be “laundered” - gold can simply be sold. Unlike diamonds, whose “blood” origin can be traced by control mechanisms adopted by the international community to end a scourge that financed endless civil wars in Africa, the illicit origin of gold cannot be established in the current circumstances. Therefore, gold can, simultaneously, be an end in itself or a means for commercial financial transactions of any nature, limited only by their inability to be transferred digitally and by the difficulties involved in transporting the weight and volume of the precious metal.

Tracing financial transactions is often complicated by the widespread use of front companies to disguise the movement of gold and the profits derived from the gold trade. These companies are often registered in cash-intensive economic sectors such as gasoline stations, pawn shops, supermarkets, motels, and similar businesses because it is easy to falsify their transactions. Most countries do not have the capacity or resources to verify the true nature of each business; therefore, one of the primary purposes of this study is to give enforcement officers some tools to use to be able to more accurately target criminals with the limited resources available.



Joint operation between the Colombian National Army and the National Police against illegal mining in the municipality of Río Quito, department of Chocó, Colombia.

## 2.1 MECHANICS OF THE ILLICIT FLOWS ASSOCIATED TO ILLEGAL MINING

The gold trade is associated with a particular production chain that is directly related to international gold prices, which is in turn the reference framework for the trade of supplies and inputs for gold production. Although, the illegal gold market is not directly affected by those rules and observes the rise of the market as a driving force, it has a particularity that differentiates it from other types of illicit trafficking: it requires two processes or laundering circuits to give it the appearance of legality. In the first, the origin of the gold is laundered and, later on, so are the monetary profits from its sale. For each of these circuits, the criminal organizations use different techniques, and in both cases, the processes are carried out, supervised, or delegated under strict surveillance and control by members of the criminal organization.

In the first circuit, most of the financial operations are carried out in cash and the money enters the exploitation zones directly through members of the criminal organizations. Subsequently, the illegal mine's production must be financed by purchasing precursors, materials, and spare parts, and by paying for labor. This is the stage that requires the higher physical effort from the workers and generates the least income, involving in most cases subsistence jobs which—given the conditions of need, work, and the pressure exerted by the criminal organizations—provide mere survival wages. In a third stage, the criminal organization consolidates the gold exploited directly or through third parties, and prepares the illicit gold





Operation against illegal mining by the Rapid Deployment Task Force of the Colombian National Army in the department of Nariño, Colombia.

to receive the appearance of legality. To do so, the criminal organization uses specific typologies to pretend that the gold was extracted in completely legal mines.

Once the consolidation process is finished, the organization begins the process of laundering the assets from the illegal gold production circuit. For this, the illegal gold is collected, transported, and sold to intermediary markets with the appearance of legality, mainly through front or shell companies. Those companies then issue certificates that will allow the gold to be exported to buyer markets. Once the illegal gold is exported, financial cycles are used through these companies using accounts in tax heavens or jurisdictions with low controls for the money that is transported, which is later consolidated by the criminal organization.

A part of that money is used to sustain the organization (purchase of luxury goods, payment to members of the organization, bribes) and the remainder is reinvested in the illegal production areas.

**Figure 1.** Laundering circuits associated with the illegal production of gold.



**Source:** Prepared by the author.

The identification of movements through both circuits makes it possible to determine whether the transactions are destined for the financing of illegal mining activities or for the laundering of money resulting from the sale of illegal gold. In both cases, investigators could be able to reconstruct the operations' document trail and associate them with a particular circuit.

Regarding the financial flows for both cases associated with the gold circuit entry flows, local rotation, exit, in-transit, and re-insertion flows were identified according to the organization's needs, and this type of flow can occur at any of the stages of the gold or money laundering circuits. It is important to highlight that the main objective of this circuit is to give the appearance of legality to illegally mined gold, while the main objective of these flows is to provide the criminal organization with the amount of money it needs whenever and wherever it needs it.

To achieve this, the criminal organizations take advantage of the anonymity provided by a cash-based economy and the control they exercise throughout the chain of illegal activities. Each of them will be explained with their corresponding symbols below:



**ENTRY**

These are flows that enter the illegal gold production areas. They represent the initial investments of artisanal miners for the purchase of materials and machinery, or the payment of rent or commissions to start exploiting. In cases of larger scale illegal mining, they correspond to flows of money introduced by criminal organizations from illegal mining or other activities such as drug trafficking, smuggling, or other types of illegal commerce. On some occasions, they involve apparently legal funds entered by front or shell companies.



**LOCAL**

Refers to the flows that remain circulating in the local economy sustained by illegal mining. As a cash-intensive activity, some of these flows are related to the purchase of goods or the payment of services to other illegal networks (smuggling, precursor trafficking, human trafficking, migrant smuggling). These flows also benefit some legal businesses that profit from the illegal activity, such as grocery and produce stores, gas stations, and pawn shops.



**EXIT**

Flows that leave the illegal mining production areas as gold or cash. These flows are directed to gold collection or commercialization centers that are located in places with larger economies that allow for larger operations and lower levels of risk.



**IN TRANSIT**

These flows represent activities related or complementary to the illegal gold production chain that are inserted in order to hide, transport, or manage money of illicit origin, taking advantage of existing structures. They are associated with activities such as smuggling, the illegal transport of goods, human trafficking, and the collection of gold of illicit origin.



**RE-ENTRY**

These are flows that are reinvested in illegal mining activities. Most reinvested funds come from small-scale illegal miners or criminal organizations dedicated to lending money and financing illegal mining activities.

In the case of flows associated with the money circuit, the objective is to give the funds the appearance of total or partial legality (depending on the phase of money laundering in which they are transported, invested, or managed) so the organization can use them when and where they need to. Like the previous circuit, its characteristics are described below:



**ENTRY**

Refers to inflows of illicit money or money in the first stage of the laundering process (structuring). This money enters directly into the finances of the criminal organization and can be the product of the illegal gold trade or other illegal activities.



**LOCAL**

The funds that the criminal organization uses locally for its maintenance or for sustaining the network (purchase of logistics materials, payment of bribes, and operating expenses). Depending on needs, these payments are made in cash (local or foreign currency) or with financial products in the last stage of the money laundering process (integration).



**EXIT**

Flows that are sent to jurisdictions other than where the illicit money was produced in order to hide it, have it available for use abroad, or as an intermediate stage for its subsequent (re)entry. One example of this type of flow is the payment of bribes.



**IN TRANSIT**

Financial flows that are moved to a jurisdiction in order to transfer, convert, save, invest, or manage the money by taking advantage of the legal and regulatory gaps that the jurisdiction can offer the criminal organization.



**RE-ENTRY**

Flows from illicit activities that are reinserted into a jurisdiction at any of the stages of a money laundering process. On most occasions, the money is used to sustain criminal networks, for reinvestment in illicit activities, or as part of reinserted assets (particularly in corruption cases).

Thus, this document's systematization of the typologies and red flags identified during the preparation of the diagnosis are intended to describe the way in which the two laundering circuits proceed and the instruments or mechanisms used by the criminal organizations to profit from this illegal activity. It is important to note that, currently, criminal mining organizations do not limit their activity to one specific type of crime. On the contrary, the pursuit of this illicit activity implies the concurrence of other crimes, including smuggling, extortion, usury, and trafficking of people and arms.

## 2.2 CONVERGENCE OF ORGANIZED CRIME WITH THE ILLEGAL GOLD TRADE

Cases across the region have shown the growing and prominent involvement of organized drug trafficking organizations and illegal armed groups in the illegal gold trade. Other forms of organized criminal activity, such as human trafficking, have seen a similar convergence toward this profitable illicit economy. Indeed, the high profitability of the illegal gold trade, gold's anonymity as a vehicle for wealth, and the illegal gold trade's complementary nature to the illegal drug trade and other organized criminal activities are among the key factors promoting this criminal convergence.

Drug trafficking gangs and other established criminal organizations engage in the illegal gold trade in a variety of ways, ranging from simple extortion schemes targeting illegal miners to more complex investment and money laundering schemes that offer higher returns and take advantage of broader international criminal networks.

This convergence poses significant challenges for governments and officials, both in combating the illegal gold trade and in promoting broader security, and the rule of law. For many prominent criminal organizations, the earnings from illegal gold are dramatic and in some cases it has replaced drug trafficking as the primary source of revenue. This revenue empowers drug trafficking organizations and illegal armed groups to carry out violent attacks, expand illicit activities, and challenge security forces for territorial control. The ability to diversify illicit revenue streams by tapping into illegal gold also makes these groups more resilient to enforcement actions by the state. It is also noteworthy that, in addition to the convergence of established criminal groups, the booming illegal gold trade has also prompted the emergence of new and more specialized criminal groups primarily dedicated to specific activities within this illicit trade, such as smuggling, enforcement, and gold extraction.

The criminal convergence around the illegal gold trade also makes it more difficult to combat this illicit activity. Advanced criminal organizations involved in drug trafficking, for example, are highly experienced with money laundering and complex criminal schemes while evading detection, and they also possess established international networks to facilitate smuggling and access to supplies. Their ability to finance illegal mining operations with large reserves of drug money also serves as an important motor for the growth of illegal gold production.

## 2.3 THE ROLE OF ARTISANAL AND SMALL-SCALE MINING

In several of the countries included in this study, large populations of artisanal and small-scale mining (ASM) producers present complex policy challenges in combating the illegal gold trade. Collectively, ASM producers mine substantial quantities of gold and are important players in mineral supply chains. At the same time, many of these informal producers are also engaged in illegality and act as a key avenue for illegal gold flows and convergence with organized crime. Governments are therefore faced with the task of balancing the economic activity of vulnerable ASM miners with the goal of introducing greater transparency to gold supply chains.

ASM gold producers are often poor and generally operate informally in areas with minimal government presence, leaving them vulnerable to extortion by criminal organizations. Consequently, distinguishing gold produced by informal but permitted ASM activity from illegal gold linked to organized crime is often impossible for officials.

Additionally, while many ASM producers constrain their activity to the basic legally permitted mining practices, a substantial portion of the ASM sector has shifted to become more heavily integrated with illicit supply chains, transnational criminal organizations, money launderers, and environmentally harmful mining practices. Despite their classification, many ASM operations are also often large in scale and well organized, utilizing heavy machinery, explosives, and prohibited chemicals.

Formalization and registration are the primary tools for regional governments in dealing with the ASM sector. Policymakers have introduced various initiatives to formalize ASM producers through specialized



registries that establish specific processes. These efforts have yielded limited success, with informal ASM producers citing high costs of formalization and insufficient support. At the same time, these registries can offer mineral producers special protections and rights which are abused by illegal miners, unscrupulous traders, and criminal organizations to facilitate the commercialization of illegal gold.

The ongoing challenge with formalizing ASM producers and combating links with illegal mining activities highlights the need to adjust policy frameworks. That adjustment should focus on increasing incentives and support for successful formalization and continued compliance, while also raising costs for flouting opportunities to formalize while engaging in criminal activity associated with the illegal gold trade. Enhanced government presence and oversight of ASM activity are also necessary for addressing this challenge.



Operation against illegal mining carried out by the National Police of Peru and the Army of Peru in the buffer zone of the Tambopata National Reserve.

# 3 IDENTIFIED TYPOLOGIES, RED FLAGS, AND EXAMPLES

## 3.1 USE OF CASH-INTENSIVE BUSINESSES TO CHANNEL RESOURCES DESTINED FOR OR COMING FROM ILLEGAL MINING

Illegal mining, like most underground economy activities, bases movements in the early stages of the chain of exploitation on cash. Some particular characteristics in areas of illegal exploitation add some additional elements to these movements, such as the use of different types of currencies -particularly in border areas-, or exchanges with other equally illicit markets such as trafficking in drugs, people, migrants or precursors.

These flows of illicit money require the entry of cash into the areas of illegal gold exploitation, which is mostly achieved through legal activities such as the commercialization of food, basic necessities, medicines, and also industrial and agricultural supplies. These elements are brought to the illegal exploitation zones by legal companies, companies run by the same criminal organizations, or front companies created to simulate operations that require the handling of large amounts of cash.

These companies use certain mechanisms to mimic the operations and emulate the behavior of similar companies that have a legal activity. In the course of their operations, they even contract the services of third parties such as securities transport companies to move cash to areas of illicit gold exploitation sites, and illegal gold to marketing centers.

In most interdiction operations carried out by authorities against criminal organizations related to illegal mining, the common denominator is the seizure of gold and cash in local currency, foreign currency, or both.





## RED FLAGS

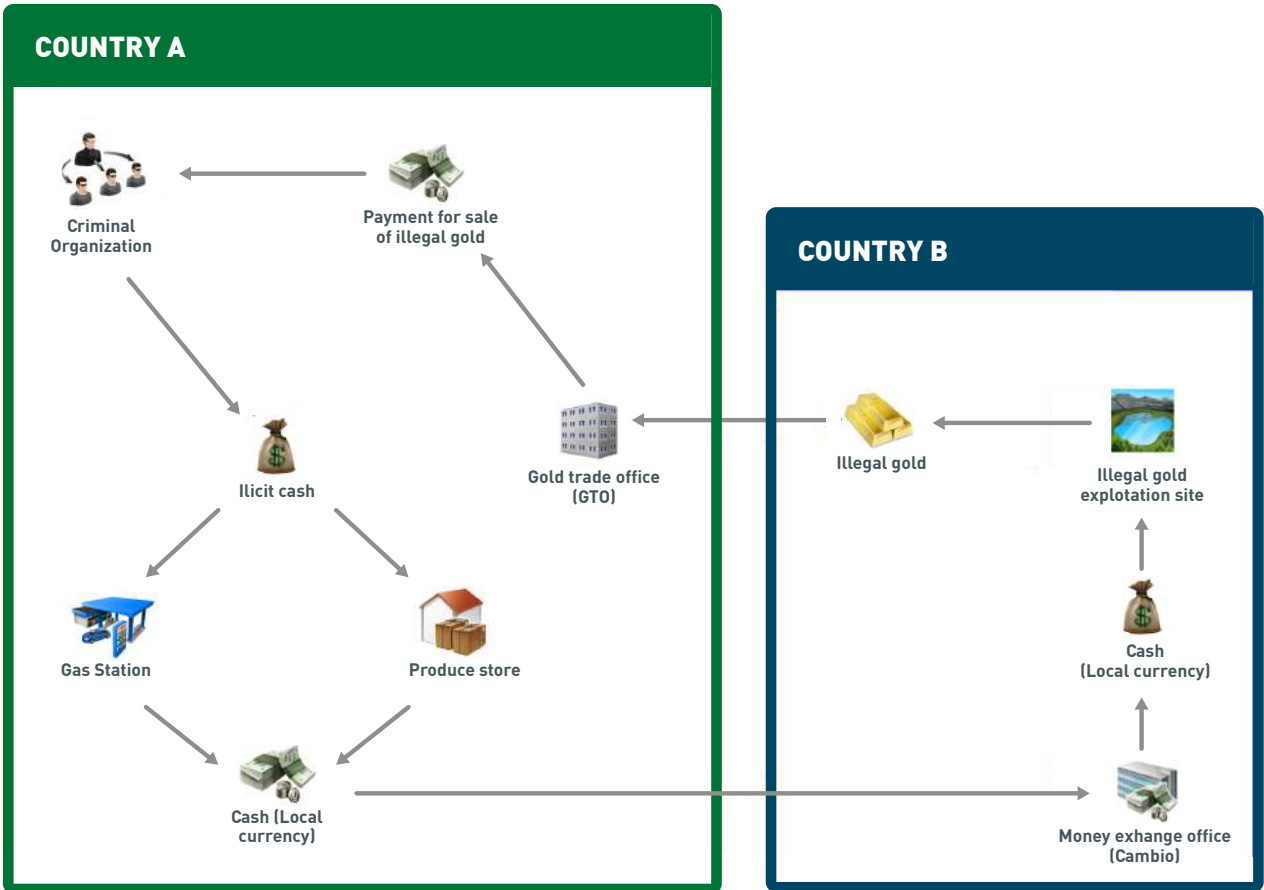
- Companies whose employees manage, on behalf of third parties, significant amounts of cash.
- Companies that carry out 100% of their operations in cash, even though this implies higher costs or extra logistical efforts.
- Companies that only present movements of cash, deposited in numerous transactions of low amounts and then withdrawn or transferred to other accounts locally or abroad.
- People who sell and buy high amounts of foreign currency not in line with their economic profile.
- Companies or people that receive or send money for similar amounts to the same recipient from several senders with clear indications of fractioning (structuring).
- People who intentionally modify the amounts of the transactions to avoid the thresholds requiring presentation of a declaration of the origin of funds.
- Groups of people making money transfers on similar dates with the same telephone number or with the same sender, recipient, or place-of-origin information.



## EXAMPLE

A criminal organization with ties to illegal mining activities is established in a border area between Countries A and B. In Country A, it controls two companies, one dedicated to the commercialization of agricultural products and a gas station, and through them it simulates transactions to mix illicit money into the normal course of its businesses. Once the organization has collected a significant amount of cash, it exchanges it for foreign currency in the parallel exchange markets. Subsequently, it moves it to Country B, where it buys the illegal mining output in cash from the intermediaries in charge of smelting the gold from the illegal exploitation fields. Once the gold has been collected, the organization transports it to country A, where it is traded through intermediaries, making it appear to be locally produced.

**Graph 1.** Case example of the use of the typology Cash-Intensive Businesses to Channel Resources Destined for or Coming from Illegal Mining.



Source: Elaborated by the author.

## 3.2 PAYMENT OF SMUGGLED GOODS WITH MONEY FROM ILLICIT GOLD EXPLOITATION

The illegal exploitation of gold is a crime directly linked to other criminal activities. This relationship is facilitated by the conditions in which it is carried out and by the location of the sites of illegal exploitation, generally in remote areas difficult to access. These factors facilitate the actions of organized groups of smugglers (fixers) who are in charge of supplying merchandise and supplies necessary for the illegal exploitation of gold and other types of illicit traffic such as narcotics, wood, or wildlife. These items are purchased with money of illicit origin, most of the time in cash in nearby towns or countries from where they coordinate their transfer to the sale sites.

These types of criminal organization take advantage of the porosity of some of the borders of the countries and knowledge of routes and mechanisms to evade the controls of the authorities. Additionally, they take advantage of factors such as differences in currency exchange rates, or conditions of high demand for some goods, to set prices based on profit maximization.

To this end, smugglers illegally introduce precursors for the production of illegal gold such as mercury, sodium cyanide, potassium cyanide, fuels and machinery; or logistical support materials such as spare parts, construction materials, food, and other utensils for daily use. In some cases, the authorities have found the same precursors for the processing of narcotics in illegal gold mining sites used as an alternative for the illegal extraction of gold due to the scarcity of traditional supplies.

After the supplies are delivered, the smugglers receive as payment either cash or the equivalent amount of illegally mined gold, which they then sell to local intermediaries or abroad.



### RED FLAGS

- People who frequently use intermediaries to carry out commercial or financial operations.
- Companies that sell machinery and supplies that, despite a high transaction volume, do not present payments to suppliers or financial services.
- Machinery stores that, despite having a high transactional volume, do not register payments for transport maintenance, or technical service.
- Companies with a high volume of transactions that are managed entirely by a single person without the support of managers, accountants, or auditors.



*Geological Services Division of the Guyana Geology and Mines Commission.*

- Companies located in illegal mining exploitation areas that import goods or merchandise that, due to their characteristics (type, frequency, or quantity), are not consistent with the development of their businesses.
- People or companies that frequently receive considerable sums of money from different areas of the country and from different senders with no apparent relationship.

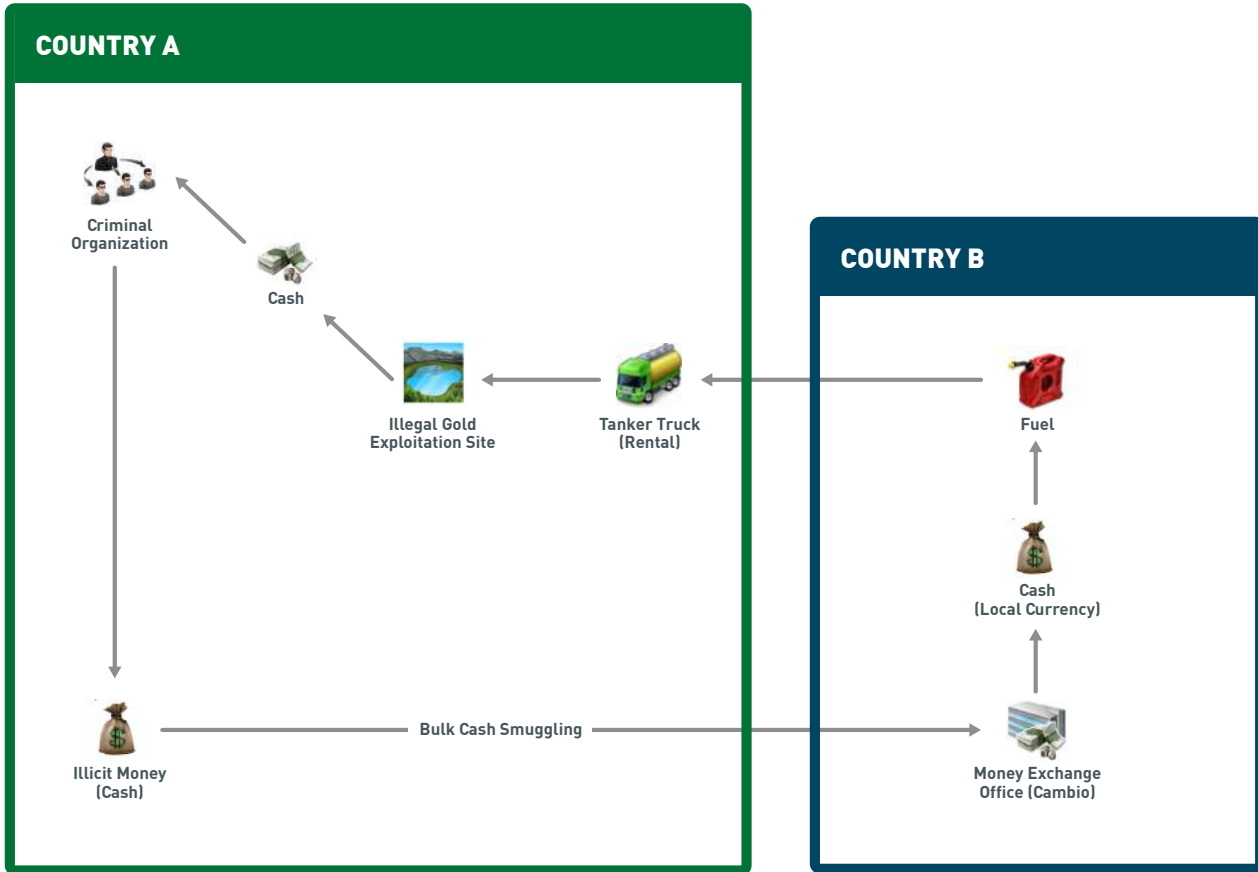


## EXAMPLE

Given the high demand for fuel in Country A caused by the shortage and the increase in oil prices, a smuggling criminal organization agrees with a fuel distributor in Country B, on the purchase, in cash, of 6,000 gallons of gasoline. Subsequently, one of the members of the organization travels to Country B physically transporting the cash as agreed for purchasing the fuel. In Country B, the member of the organization rents a tank car to transport the gasoline to the neighboring country.

After a few days, the tank car is illegally transported to the neighboring country and is taken to the illegal mining exploitation area. The criminal organization sells the fuel, which is paid in cash by the illegal miners. After selling all of the smuggled merchandise, the organization returns the tanker truck to the place of origin.

**Graph 2.** Case example of the use of the typology Payment of Smuggled Goods with Money from Illicit Gold Exploitation.



Source: Elaborated by the author.

### 3.3 ALTERED IMPORT/EXPORT OF SCRAP GOLD DECLARATIONS AND QUANTITIES

In most countries in Latin America, the sale, export, and import of scrap gold, are less controlled than refined gold. Scrap gold is defined as gold that is no longer of value in its original marketed form,<sup>1</sup> which is usually discarded gold or broken jewelry. The market for scrap gold is a highly lucrative global market and was worth US\$ 7.93 billion in 2018. Whereas the market for refined gold is controlled and purchases must be declared, when refined gold is passed off or mixed with scrap gold it often escapes detection.<sup>2</sup> Scrap gold is also generally taxed at a much lower rate than gold bullion, in part because most declared scrap gold is 14 karats, or 58.3% pure, compared to the 99.5% purity of gold bullion.<sup>3</sup>

Furthermore, declaring gold as gold scrap is beneficial for either avoiding taxes and detection for export, or lowering the import taxes if gold is being imported. In countries with porous airport and port security near pure gold can be carried as scrap gold in the form of large, broken necklaces, bracelets, or rings, or worn, as imperfect jewelry pieces to carry to market. For this purpose, criminal organizations forge import/export documents to reduce or increase the value of the scrap gold changing its quantity, quality, or source of origin. This usually incurs no tax. Conversely, imports of scrap gold are taxed at an average rate of 0.1 percent, while bullion and other purer forms of gold face an average global tariff rate of 5.04%.<sup>4</sup> This difference is significant enough to impact gold profit margins and provide an incentive for mixing scrap and bullion.

This typology is most prevalent in a handful of gold purchasing jurisdictions that are known to tolerate this kind of trade and purchase more than half of the world's scrap gold. The origin of the funds derived from the sale of the gold can now be justified and have a paper trail of origin, meaning the funds can be repatriated to the trader or the trader's company in Country A without detection.

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1 <https://www.sellyourgold.com/what-is-scrap-gold-worth>

2 Observatory of Economic Complexity (OEC), accessed at: <https://oec.world/en/profile/hs92/waste-or-scrap-containing-gold-as-sole-precious-metal?redirect=true>

3 <https://www.quora.com/What-is-the-purity-of-gold-in-bullion-coins>

4 OEC, op. cit.



Prosecutor's Office collecting information to continue the judicial process.

Author: State Prosecutor's Office / Lenin Montalvo.



## RED FLAGS

- Couriers and foreign trade intermediaries with frequent transactions of scrap gold, in volumes or amounts that are unusual for the market.
- Scrap gold businesses that show unusual earnings on a par with gold bullion sales rather than scrap gold sales.
- Scrap gold businesses that report unusually high volumes of sales for their geographic and economic areas of operation.
- Significant variations in amounts of gold reportedly purchased and sold as scrap gold on a year-to-year or month-to-month basis.
- Frequent shipments of scrap gold to high-risk jurisdictions known for lax compliance with gold importation regulations.



- Large-volume, frequent shipments of scrap gold from companies or individuals with no visible ties to the gold or scrap gold trade.
- Transfers of cash or financial instruments to a local company originating in a country other than the declared destination of the scrap gold.
- Multiple scrap gold businesses registered under the same address, or scrap and gold bullion export businesses registered at the same address.
- Account volatility and significant cash withdrawals from company accounts where scrap gold payments are credited.
- Financial transfers from abroad by scrap gold companies that do not register foreign trade activities.



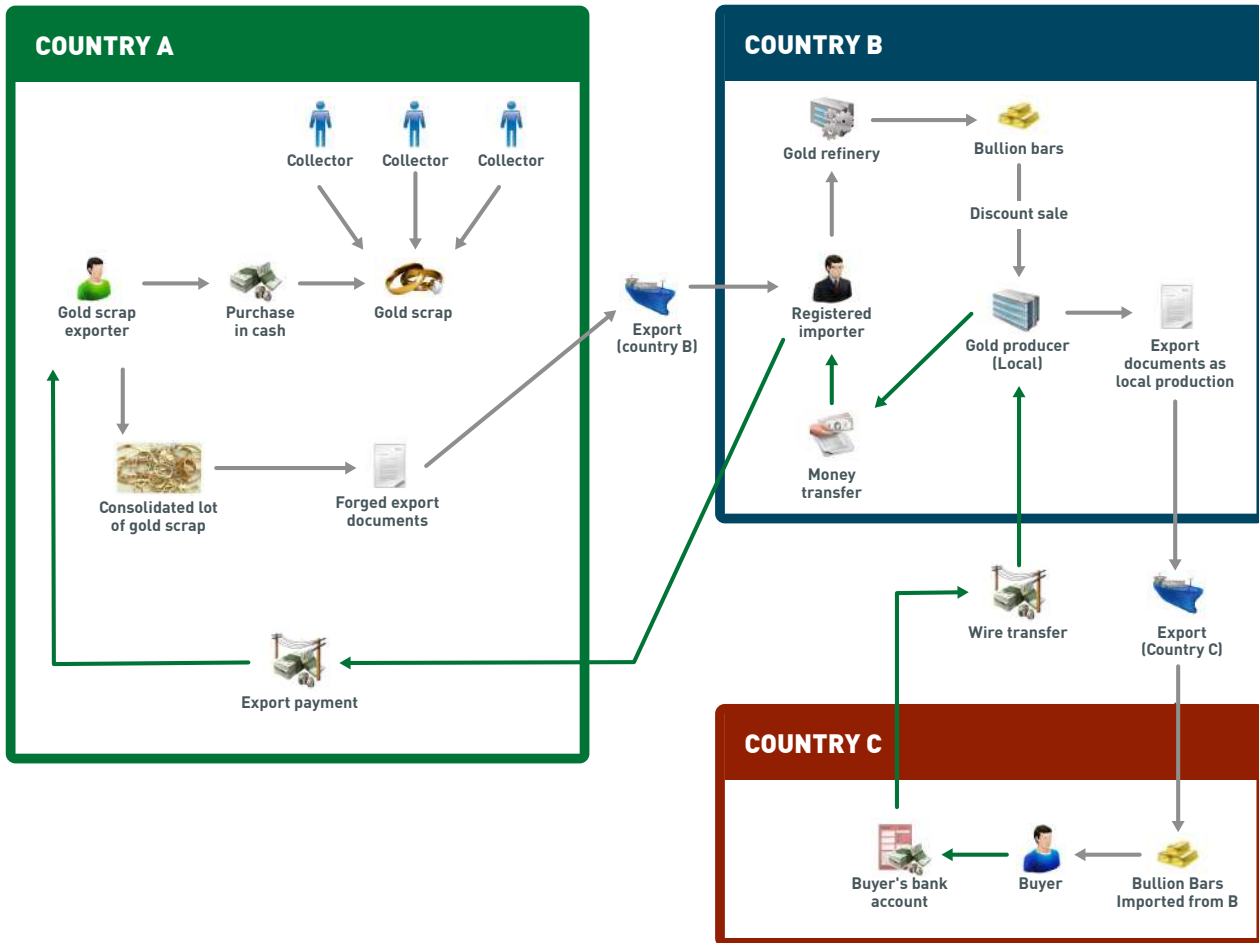
## EXAMPLE

Country A has few controls for checking the purity or monitoring the gold packaging that a gold trader has declared as scrap gold and presented as rudimentary broken chains or rings. Either thanks to a payoff (corruption) or lax enforcement, the high purity gold is declared as a lower quality product and shipped out of the country without being assessed for paying taxes or registered as an export of gold. A gold importer in Country B is waiting for the shipment and receives the declared scrap gold from the gold trader from Country A through the trader's agent.

The gold is then transferred to a gold refinery, melted down into bullion bars, and sold as bullion on the gold market, as if it had been produced locally. The value of the gold sold far exceeded the declared value of the scrap metal, but the payment is now safely in the system and ready for the next cycle.

In a variant of this typology, the money can also be sent or transported in bulk to Country C, usually an offshore jurisdiction with strict bank secrecy and bearer share corporate registration facilities, in order to purchase machinery and equipment, precursor chemicals, weapons, or other products available on the legal and black markets.

**Graph 3.** Case example of the use of the typology Altered Import/Export of Scrap Gold Declarations and Quantities.



Source: Elaborated by the author.

### 3.4 CROSS-BORDER TRAFFICKING OF ILLICIT GOLD

Many countries in Latin America involved in the gold trade have long suffered from poorly controlled and porous land borders with other gold producing nations with similar border characteristics. These regions tend to be far from the nation's capital or in remote areas, often with little state or law enforcement presence. In addition, because contraband is an accepted way of life in many of these areas, there is no social stigma attached to participating in activities beyond the government's reach. Gold has long been such a trafficked item. As illegal and unregulated gold mining expands, much of it alluvial in nature, the activity attracts large numbers of people. At the same time, the activity exacerbates environmental damage and the human misery that accompanies the hardscrabble industry that drives boom and bust economic cycles of risky employment followed by poverty.

How the gold is moved to a market after it is mined depends on multiple factors, such as lack of controls, differences in tax rates across borders, scale of illegal mining, and ease of access to legal/illegal markets. One key determinant is the cost of getting the gold placed in the legal system. Large buyers of gold will often have to pay taxes in the country of purchase. If there is a significant variation in tax rates between adjoining countries and enforcement is relatively equal, the gold will usually flow to the one with the lowest rates. When this variable changes, so does the flow of the trade. Sudden surges in the ability to consolidate small gold sales into much larger than usual sales, absent identifiable outside drivers, are unlikely to indicate real increases in gold production.

International sanctions are another key factor in determining the flow of gold in transborder regions because they determine ease of access to the world gold market. If one country is under international sanction then the gold will likely flow through its neighbors, despite the additional cost of moving the gold further or in a foreign country. In many cases, the dollar or other hard currency is often in high demand in sanctioned countries, rather than rapidly devaluing local currencies. Countries with cross-border trafficking are more vulnerable to illicit transactions if the gold can be exchanged for dollars and the dollars smuggled back into the country of origin of the gold, increasing its value and the utilization of this typology.



#### RED FLAGS

- Individuals or companies with frequent and high-volume transactions, from or to border gold mining regions with little state presence, historic smuggling activity, and endemic corruption.
- Significant disparities in gold export figures in border areas between production and reported exports.
- Transactions to or from countries with significant fluctuations in gold exports from one year to the next without a rational explanation (for example, large-scale investments, natural disasters, rise or fall in international prices) to account for significant changes.

- Unusual increase in transactions from or to countries with significant drops or spikes in taxes on gold purchases that do not coincide with historical exports or reasonableness of transactions.
- Gold merchants located in border regions that concentrate the majority of production and/or sell more gold than the region has historically been able to produce.
- Unusual increase in cash transactions, or activities related to illegal mining (for example, sale of chemical precursors or machinery near border areas or crossing points in or near gold mining areas).
- Small gold stores that carry out cash transactions in large numbers or associated amounts, and circulation of large amounts of money above what the region would be capable of producing.



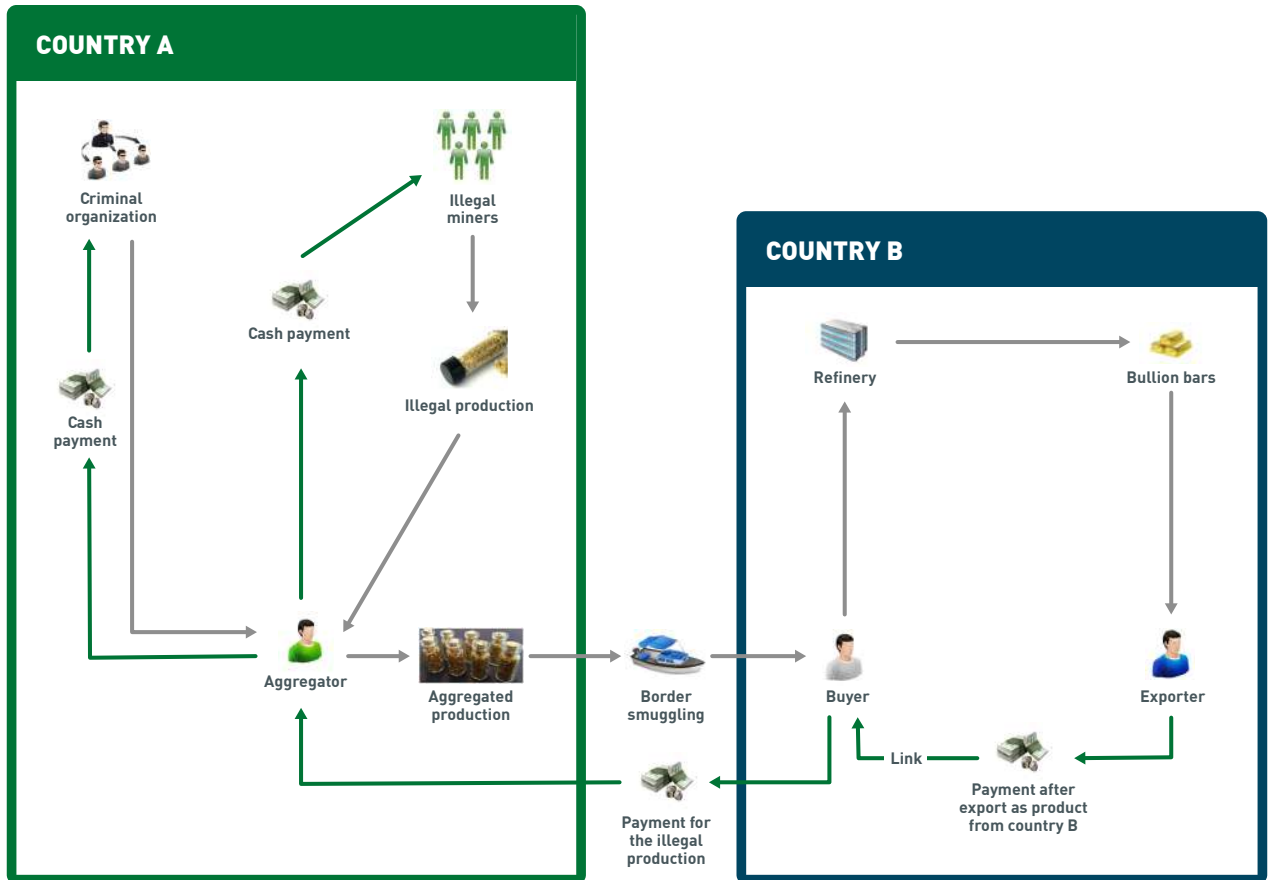
## EXAMPLE

A gold miner or gold aggregator (*acopiador*) in Country A gathers enough gold to move to market and Country B is just across the river. While the price of gold is set globally and therefore the same on both sides of the border, the tax charged on gold sales in Country A is 5%, while the taxes in Country B are 1.5%. In addition, Country A's government is facing significant international sanctions and monitoring of its gold exports due to human rights violations and corruption.

Getting the gold to market often requires several payments to third parties. The first is to the criminal or rebel group controlling the mining sector, which takes a percentage of the profits generated in the areas it controls. Crossing the border river presents few obstacles, as guards on both sides of the river, if they are present, can be easily avoided by using informal crossing paths or by paying small bribes.

Despite these payments, the savings generated from the lower tax rate for the sale to mid-level buyers in Country B make the trip profitable and buyers are near the border. The gold is then added to other gold purchases for export and registered for export as having been mined in Country B. The miner returns to Country A to continue his mining activity, which can only be done after paying the group in control of that mining sector. The earnings from the criminal organizations are brought back to Country A (often in dollars), which allows them to keep the illicit cycle in operation without the devaluation of profits that would be incurred by doing business in the local currency.

**Graph 4.** Case example of the use of the typology Cross-Border Trafficking of Illicit Gold.



Source: Elaborated by the author.

### 3.5 USE OF HIGH-RISK JURISDICTIONS AND HIGH-RISK ACTORS OR INTERMEDIARIES FOR GOLD TRANSACTIONS

Illicit gold supply chain operations are heavily dependent on jurisdictions that offer anonymity to potential bad actors, lax reporting standards on the origin of gold imports, and difficulty for law enforcement and financial authorities to access information in a timely and reliable fashion. Intermediaries in these transactions are often high-risk actors who identify and exploit the regulatory gaps that allow parallel gold markets and imports/exports to thrive and know the illicit gold structure on a global scale. Thus, they are able to profit by moving gold to high-risk, opaque jurisdictions for significant profits, when gold exports take circuitous, economically irrational routes to access high-risk jurisdictions.

In Latin America, legal gold exporters have easy, secure, and established air flight access to gold refineries and purchasers in generally well-regulated jurisdictions in North America and Europe, which are also the home base of most of their primary investors in the gold mining operations. So it is often an indicator of illicit gold movements when gold shipments are re-routed from the easy and economically rational venues to jurisdictions that are further afield. The likelihood increases if the new destinations offer no comparative economic advantage in refining and market access; and are more costly and less accessible.

The concern is further heightened when the economically irrational jurisdictions of choice pose significant regulatory and law enforcement concerns regarding basic know-your-customer (KYC) compliance measures or any sort of due diligence on the origin and ownership of the gold. These high-risk jurisdictions, refineries, and individuals are well-known in the world of global gold commerce and are easy to avoid.



#### RED FLAGS

- Gold shipments that are rerouted to refineries in new jurisdictions that offer no competitive advantage are more difficult and expensive to reach, and have less stringent KYC regulations.
- Companies that frequently send gold to unregulated markets when there is no economically sound reason to do so, apparently with the intention of avoiding the detection of illicit movements of gold.
- Operations involving companies and refineries that have been sanctioned by national and regional gold exchanges in charge of regulating the metal trade.
- Substantial gold exports to unregulated jurisdictions that do not match the company size profile recorded in government export documents.
- Gold bullion purchasing companies in intermediary countries that do not offer real services other than the certification of origin and purity of gold.

- Multiple gold purchasing companies established in intermediary countries that are registered at a single address, but do not carry out visible commercial activities.
- Newly established gold buying companies with rapid accumulation of large amounts of income (cash and bank accounts), and showing little real economic activity at their facilities.
- Large cash withdrawals from the corporate accounts of gold trading companies, by shareholders, legal representatives, administrators, or employees; gold trading companies whose corporate or individual accounts have a significant amount of transfer activity in an intermediary country to accounts or account holders in the true country of origin of the gold.

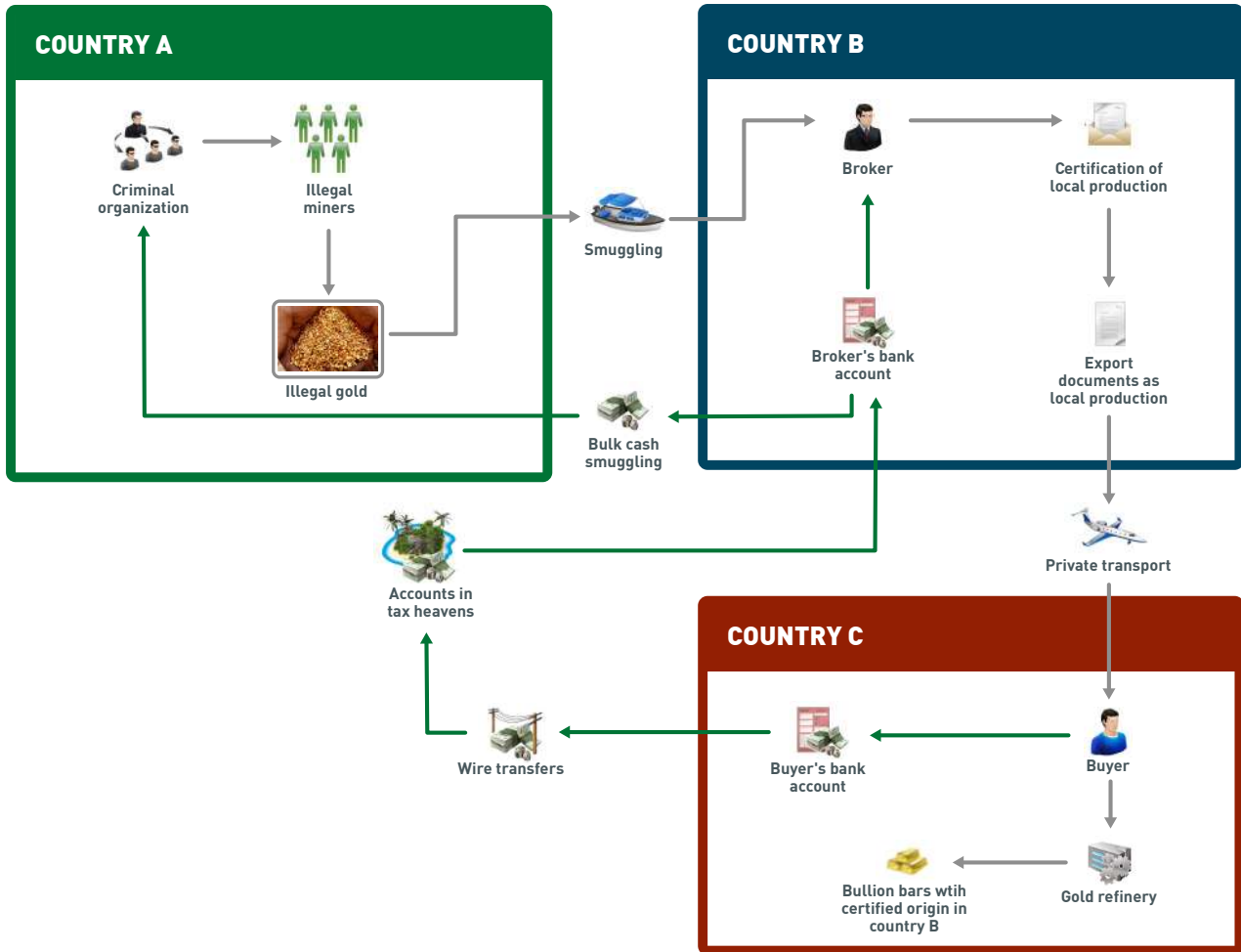
 **EXAMPLE**

Country A produces a significant amount of gold in territories under the strong influence of transnational criminal organizations and finds it difficult to move that gold to market because of international scrutiny of its gold exports. A company in nearby Country B is paid to create certificates of export for gold that is supplied by the criminal organizations in Country A. Country B certifies the gold as originating in Country B and flies the gold to Country C, where the purchaser knows the true origin of the gold but operates a refinery that does not carry out KYC protocols. Despite the fictitious nature of the certification of origin of the gold, it is refined and registered as having been exported from Country B.

The buyer in Country C pays for the gold and the payment is re-routed back to the seller in Country A through a series of intermediate offshore banks that disguise the origin of the funds. In some cases, the buyer in Country C also owns a bank, so the funds are moved without triggering any suspicious activity reports. The profits of the seller in Country A are reduced because of the need to pay officials in countries B and C, as well as banking officials and fees. However, because the system generates almost no risk to the seller in Country A, it is more cost effective than risking the gold being confiscated before it reaches market.



**Graph 5.** Case example of the use of the typology Use of High-Risk Jurisdictions and High-Risk Actors or Intermediaries for Gold Transactions.



Source: Elaborated by the author.

### 3.6 CORRUPTION OF PUBLIC OFFICIALS WITH FUNDS FROM ILLEGAL MINING

The illicit gold mining supply chain relies on the ability to use profits from the illicit activity to corrupt public officials at every juncture in the process. This includes the importation of precursor chemicals such as mercury and the importation of heavy machinery, both used to extract the gold.

Corruption of public officials is a key factor in moving illicit gold to market, from bribing customs officials to allowing unregulated mercury to flow into countries, and again if the mercury is resold across the border to neighboring countries. Corruption is a key part of allowing the flow of illicitly mined gold across borders and for moving gold to market within a country in order to avoid declaring the gold for taxation or scrutiny for other crimes. Corruption of public officials also often plays a key role in acquiring mining rights to ecologically fragile areas or areas where indigenous groups live. Corruption is often a factor in non-enforcement of laws as well, such as the non-enforcement of key environmental regulations, labor laws, and child slavery laws or enforcing criminal penalties for participation in the illicit gold supply chain.

Corruption of public officials at formal points of entry and exit (ports, formal border crossings, and airports) is crucial to the flow of illegally mined gold, both to refineries and to international markets. This type of corruption can be described as “intentional blindness,” or “turning a blind eye,” whereby the corrupt official omits simple steps of enforcement in exchange for cash or other benefits (shares in mining operations, percentage of the gold mined etc.), rather than commit overt actions that would be more visible and of higher risk.

Corrupted public officials turning a blind eye to irregular and illicit gold movements, gold sales and mining; failure to report mining violations and illegal land use, unregistered imports of mercury and other chemicals; knowingly allowing gold to be exported as scrap rather than bullion; all require non-action rather than active support of criminal activity, making them low-risk, high-return activities that are often systemic to the way power structures work and have endured for decades.



#### RED FLAGS

- A sudden increase in assets such as houses, vehicles, and other expensive items that are not consistent with the salary assigned to public officials with responsibilities in the mining sector.

- Bank accounts of public officials and/or Politically Exposed Persons (PEPs)<sup>5</sup> showing large and/or frequent cash deposits from unexplained sources.
- Mining operations with extensive use of mercury, despite the fact that this precursor is prohibited or regulated to be sold in small and verifiable quantities.
- Sudden use of sophisticated, large, and expensive mining equipment (backhoes, dredgers, mobile pressure pumps and hoses) in remote areas that have no documentation keeping track of such imports.
- Informal labor camps near mining areas, often inhabited by migrant workers, which despite having been subject to inspection, do not meet basic sanitary and legal conditions.
- Public officials who remain in positions of responsibility in mining areas, or in customs control posts for periods longer than those stipulated or regulated, or who are replaced by other officials related or recommended by them.
- Mining fields that, unlike other fields with similar characteristics in the same area, are not subject to inspection visits, supervision, or control by the authorities.



## EXAMPLE

A local businessman in Country A, using funds derived from existing illicit gold mining operations, pays a bribe to a public official to ignore the importation of expensive new mining machinery for operations on forested land that directly violates the nation's policy on contaminating local waterways. Mercury, necessary for the artisanal extraction of gold, cannot be legally imported into Country A, but can be purchased in neighboring Country B and smuggled to the mining area after paying bribes on both sides of the border.

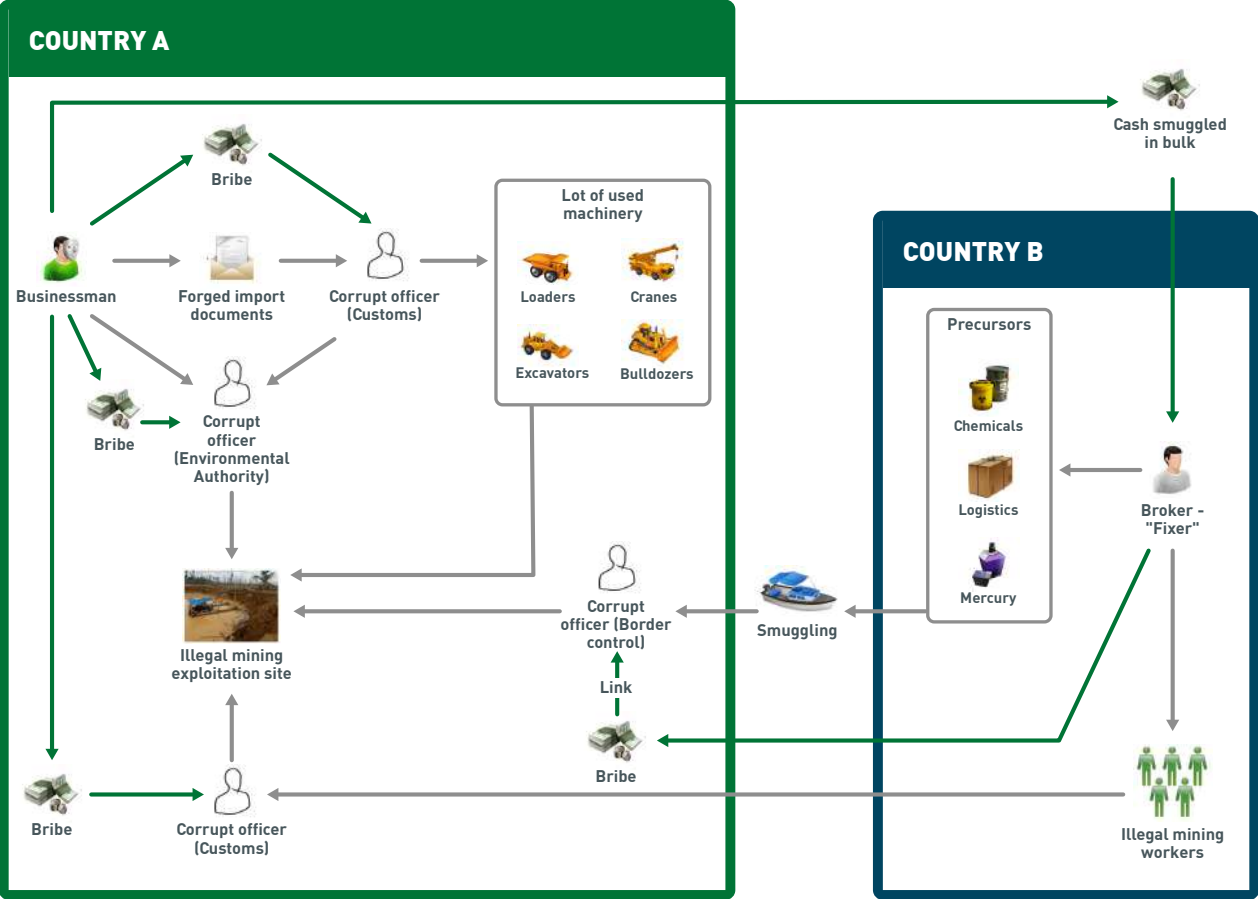
As the mine begins production it attracts irregular migrant workers from bordering countries as labor, including children, necessitating another payoff to a third official to avoid having the mining operation shut down due to multiple code violations. When mining enforcement officials visit the isolated mine, they accept a bribe to certify the operation is in compliance without reporting the environmental, labor, and operational violations. The mine owner then sells the mine's small-scale gold production to a middleman

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<sup>5</sup> According to FATF, Politically Exposed Persons (PEPs) are individuals who fulfill or have been entrusted with prominent public functions, such as Heads of State or Government, high-level politicians, high-level government or judicial officials or senior military personnel, senior executives of state corporations, officials of major political parties, and members of senior management, that is, directors, deputy directors, and members of the Board, or persons performing equivalent functions.

who ignores the illegal nature of the gold's origin, bundles it together with legally produced gold, and then sells it on the international market. With the profits from the mining operations, the local businessman repeats the cycle with new small-scale mines, repeating the same cycle of corruption of public officials.

**Graph 6.** Case example of the use of the typology Corruption of Public Officials with Funds from Illegal Mining.



**Source:** Elaborated by the author.



Operation carried out by the Attorney General's Specialized Office in Environmental Matters (FEMA) together with the Peruvian Navy-COAM and the Peruvian National Police to eradicate illegal mining activities that have been taking place in the Nanay river basin.

### 3.7 ILLICIT TRAFFICKING IN MINING WASTE (TAILINGS)

Despite advances in the different methodologies for gold extraction, none of the current techniques guarantees the extraction of 100% of the metal contained in the processed material. On some occasions, the reprocessing of wastes called "tailings" does not represent a potential benefit for miners since, by requiring the use of other techniques, it is necessary to invest in additional facilities, precursors and labor; which may not result in an attractive benefit/cost ratio.

The illegal use of other techniques to extract the ore from tailings (such as hydrometallurgy, in which cyanide is used to dissolve the metal, which is then extracted through the use of other precursors), has led organized crime groups to establish networks for the theft, transport, and sale of tailings -from legal or illegal exploitation sites- to other organizations dedicated to illegal mining. Given the convergence of narcotics processing laboratories in areas surrounding those where illegal mining is practiced, precursor providers (fixers) offer the same products to drug trafficking and illegal mining organizations.

Thus, authorities have identified organizations linked to mining activities (openly illegal, or with a facade of legality) that sell illegally obtained tailings, so that the former, in turn, extract the mineral contained in

them and later make it appear to be gold mined from their licensed mining sites, or sold together with the illegal production to intermediaries in the informal market.

These tailings are transported directly to the sites of illegal exploitation by the criminal organization and in some cases the organization assumes the transportation costs. Delivery is made to the miners in exchange for a percentage of the extracted material. According to reports from the authorities, payments for tailings are made in kind (when made in consignment) or in cash. Payments are made after the illegally obtained material has been processed.



## RED FLAGS

- Transport and logistic companies that suddenly increase their expenses for consumption of fuel, spare parts, or repair services.
- Geographical areas with high fuel consumption that are not related to the productive activities carried out or to the number of registered inhabitants.
- Transport and logistic companies located in areas of illegal mining exploitation that receive the majority of their income in cash, or that pay suppliers and services in cash.
- Mining companies that repeatedly report unauthorized access to their facilities, or constant loss of tailings.
- Mining exploitation areas in which unusual amounts of chemical precursors are used, not related to the usual types of exploitation.



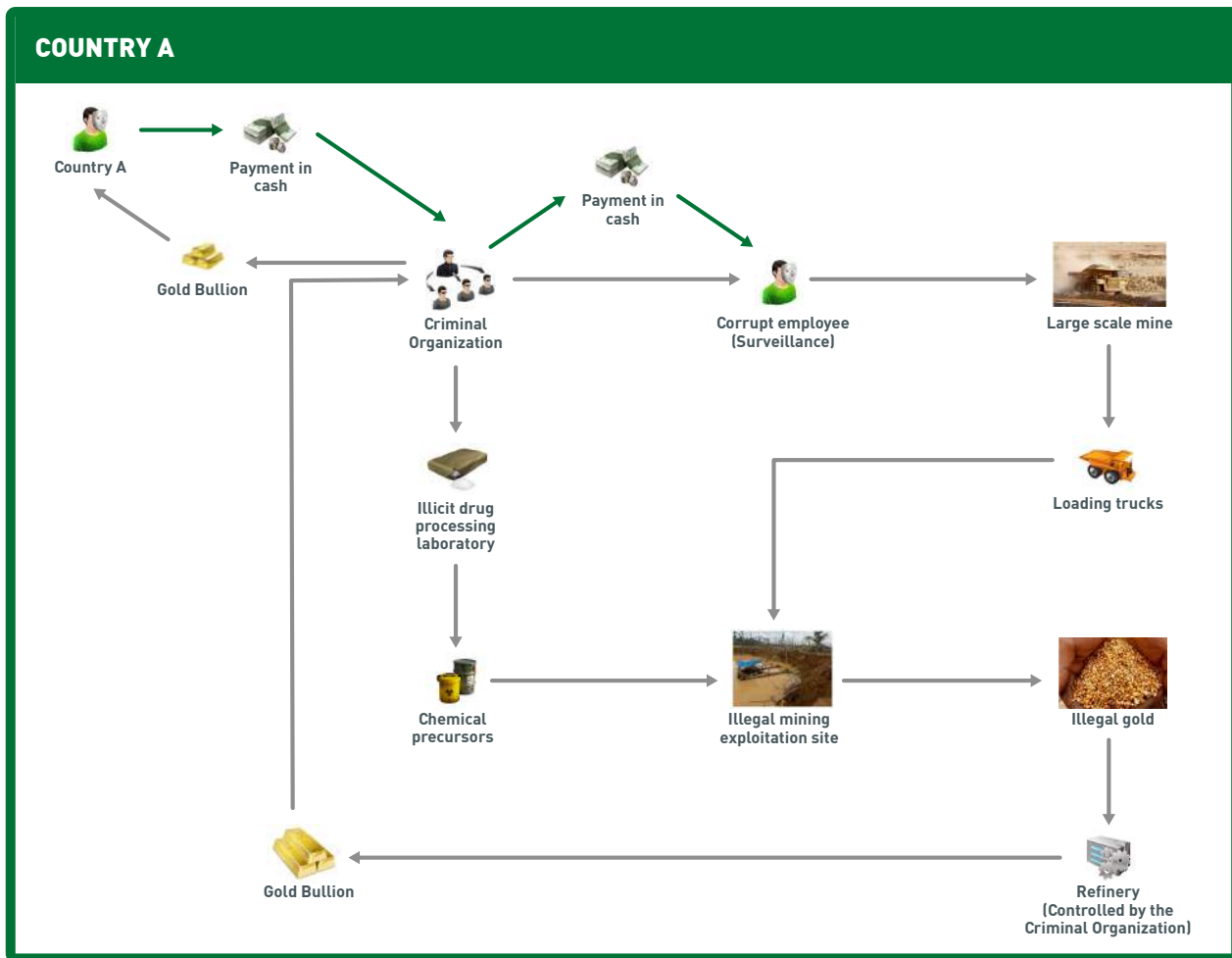
## EXAMPLE

A criminal organization linked to illegal mining exploitation groups contacts a security employee of a legal mining company so that, in exchange for the payment of a cash bribe, he allows the entry of trucks during the closing hours of the plant to the tailings deposit areas of the field. Subsequently, they use the vehicles of a transport company they own to take them to an illegal mining area. Once there, the organization delivers the material to the illegal miners on the condition that a percentage of the mineral extracted from the tailings be delivered to them.

The illegal mining organization re-processes the tailings using the leftover supplies from a clandestine narcotics production laboratory and extracts the remaining mineral from the material. After the process, the organization pays the clandestine laboratory for the precursors with part of the extracted material and

delivers the corresponding part to the organization that provided the tailings. Finally, it collects the illegal mine's tailings, and sells them to an intermediary who buys them without asking about their source or origin.

**Graph 7.** Case example of the use of the typology Illicit Trafficking in Mining Waste (Tailings).



Source: Elaborated by the author.



### 3.8 USE OF PAWN SHOPS IN THE ILLICIT GOLD SUPPLY CHAIN

It is important to characterize pawn shops (*casas de empeño*) as cash intensive businesses, facilitating many aspects of the money laundering and supply chains related to illicit gold transactions. Cash transactions are almost impossible to trace through the formal financial system and easy to falsify with fictitious receipts. Transactions are usually done in small amounts of cash, and usually involve the trade of household gold and jewelry. Pawn shops involved in the illicit gold supply chain are often part of a broad network of similar shops, to over-invoice the amount of gold they received and sold. The margin between what was really sold and what is reported as sold is the gold laundered into the system. This is particularly useful in areas adjacent to or under the control of armed criminal groups or insurgencies that have limited options for moving gold to market.

An additional trend that we can include here is that of companies buying gold scrap from pawn shops to be used as described in typology 3.3.

The primary usefulness of this methodology in the supply chain is that it makes it easy to disguise gold movements and payments with relatively low risk. A pawn shop may sell US\$ 5,000 a month in legal gold jewelry and ingots but report that it sold US\$ 25,000, thereby justifying the flow of US\$ 20,000 a month in other gold to the market. This is often also part of typology 4.3 (above) where scrap gold is fed into this system. Detecting this flow requires ongoing reviews of financial reports and the capacity to distinguish between real sales and fictitious transactions: key capacities that many governments plagued by illicit gold do not have.



#### RED FLAGS

- Pawn shops that report much more income than could reasonably be generated in the community, indicating that most of it is in cash.
- Sudden swings in the amounts of gold sales reported at pawnshops, either month to month or year to year (large increases followed by sharp drops or unusually large increases that then remain high for a sustained period of time).
- Multiple pawn shops under the same ownership structure that generate unusually large profits in different geographic zones in or near conflict areas.
- Individuals or small groups of investors who do business with the pawnshop on a repeated or continuous basis, when the majority of the pawn shop's transactions are limited to the specific financial needs of the moment.

- Pawn shops with unusual large gold sales and shipments reported from areas where gold production is historically low.
- Unusually high volumes of people visiting small pawn shops who, without having a known source of income, sell gold for large sums that are paid for in cash.
- Pawn shops that concentrate the bulk of transactions in a geographic area, and most of whose transactions are carried out using cash.
- Pawn shops that concentrate most of their business on buying gold or scrap gold rather than the more commonly pawned household items.
- Pawn shops that, despite being recently established, handle most of the economic activity in the area where they operate.



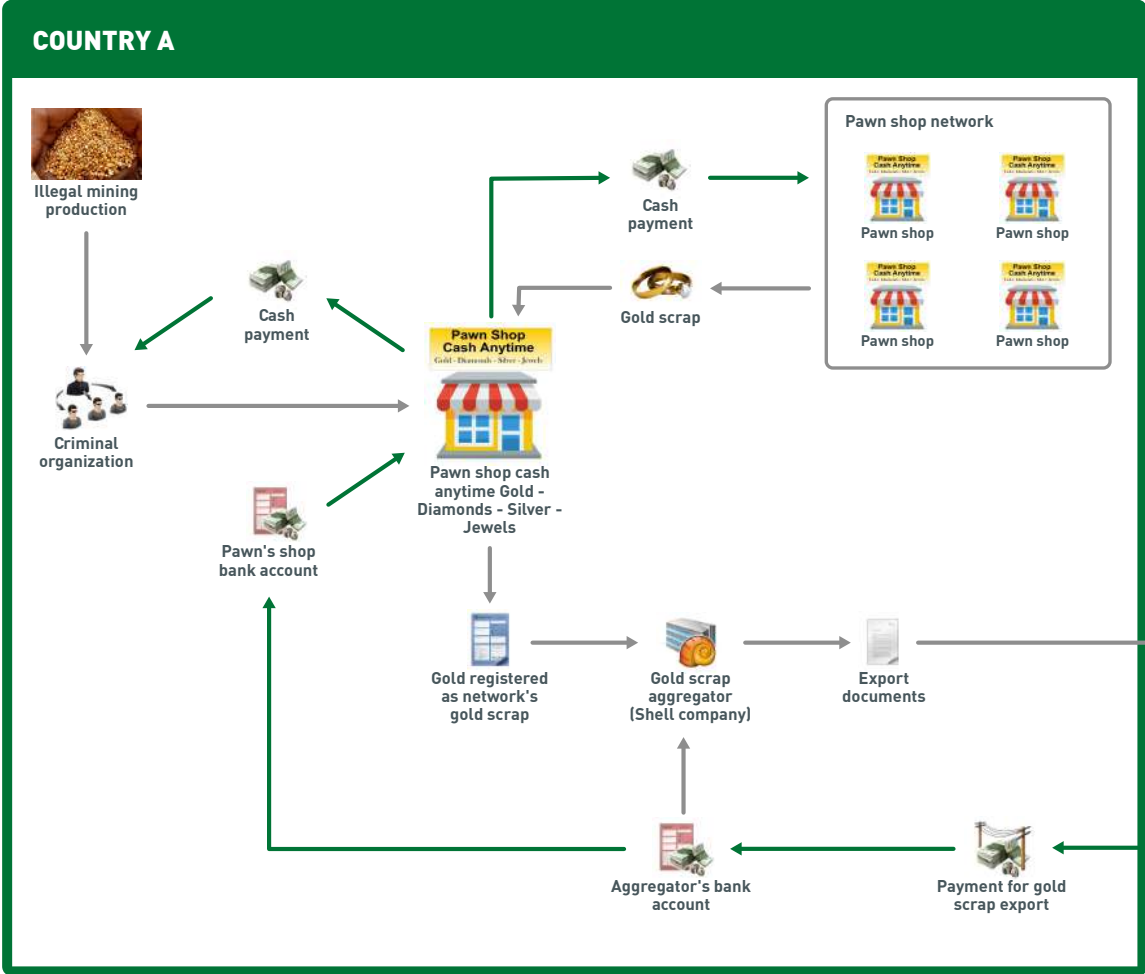
## EXAMPLE

A criminal group controlling informal/illicit gold mining in a rural zone is having difficulty moving its gold to market because of significant police and military activity in the area. To turn the gold into cash the organization reaches an agreement with the owner of the local town pawn shop to receive the gold, register the value as jewelry and items of value pawned in the shop, and then move the gold to market as if the origin were old jewelry or scrap gold. The goods, which would produce a sudden windfall profit, are often reported as being the inheritance of local, poor families being sold to enhance the family's financial position. The pawn shop owner often operates other stores or services that give the owner easy, non-suspicious access to territory controlled by the criminal gang, in order to collect the gold and bring it back for sale.

The rural pawn shop often acts in tandem with other pawn shops in the same town or nearby towns, often under the same ownership. In some cases, the criminal or insurgent group develop a regional or national network of pawn shops to move the illegally mined gold for a large profit. Over time these shops report sales of hundreds of thousands of dollars and even millions of dollars a year in the sale of old jewelry and other bits of scrap gold, far beyond what the pawn shop could be expected to make in the legal economy. This money is paid to the owners of the pawn shops when the gold sales are made and returned either in cash or in food, medicine, and other commodities to the criminal group.

Unusually large flows of cash through this method are seldom detected. In addition, if the movements are detected, the penalty is usually a small fine, not prison time or harsher forms of punishment.

**Graph 8.** Case example of the use of the typology Illicit Use of Pawn Shops in the Illicit Gold Supply Chain.



**Source:** Elaborated by the author.

### 3.9 SMUGGLING OF GOLD FOR MARKETING IN A FOREIGN COUNTRY

The international nature of the illegal gold trade is visible in the accompanying rise of illegal gold smuggling. The smuggling of illicitly extracted mineral is a favored method of evading disruption by officials and moving illicit minerals closer to their final destination. Illegal gold smuggling between countries also links criminal actors specializing in different segments of this illicit supply chain, such as illegal miners, money launderers, and unscrupulous mineral traders, thus further facilitating the growth of this criminal economy.

Criminal actors continually develop diverse contraband routes for illegal gold with flows crossing between multiple countries. Often, such cross-border movements of illegal gold will also involve the smuggling of large quantities of cash in the opposite direction, either as payment for illegal gold, or as a means of repatriating proceeds from its sale. These international contraband movements significantly exacerbate the challenge for officials seeking to identify the origins of illicit gold and to uncover broader illicit networks by limiting the access of investigators to only the part of the larger criminal operation which takes place within their country. While international cooperation between investigators can bridge these gaps, in practice, the exchange of information and cooperation between officials often is too tardy and insufficiently coordinated to be effective.

Disparities across countries in their capacities to block the sale and export of illegal gold are an important factor in the rise of gold smuggling activity, with illegal gold often being smuggled to countries with relatively fewer barriers. Indeed, evidence suggests that the adoption of enhanced oversight over gold supply chains without the disruption of illegal mining activity can push illegally extracted gold out of a country. Other factors, including the presence of mineral resources in remote border regions, established contraband and illicit drug smuggling routes and groups, as well as limited government capacity to control national border crossings further facilitate the cross-border flow of illegal gold and related supplies such as mercury and explosives.

Due to limitations to cooperation between governments, smuggling illegal gold out of a country can disrupt enforcement and monitoring by officials, exacerbating the challenge of combating this illicit activity. Ultimately, the greater the number of countries involved in a gold smuggling network, the more difficult it is to trace across different governments, highlighting the limits of international enforcement.



#### RED FLAGS

- International gold traders whose exports increase significantly, with them citing domestic gold purchases even though there is no corresponding increase in domestic production.

- Gold exporting companies, which have no record of royalty payments and often use the Harmonized System<sup>6</sup> (HS) tariff code for gold scrap and scrap.
- Companies related to the gold trade with significant increases in the volume and/or value of production, without apparent justification.
- Companies that suddenly modify their corporate purpose to be able to export gold without having prior knowledge of the sector.
- Substantial gold transactions recorded by companies based on property located in a border region or municipality without a significant mining sector and mining activity.
- Gold trading companies or groups of companies that register their facilities on a property without the corresponding commercial profile.
- Several companies related to the gold trade that register their headquarters in a single property, and that provide the same contact information (address, telephone number, email, etc.).
- Gold trading companies that receive transfers from abroad for large sums of money managed by individuals or companies with no history of export operations.
- Gold trading companies that carry out substantial exports that do not match the profile or size of the company as recorded in government export documentation.
- Gold exporters who cannot provide documentation to substantiate the origin of the gold (cannot provide proof of purchase).
- Start-up gold trading companies that quickly have high balances in their bank accounts and much of this income is due to transfers sent from abroad.
- Volatility in the accounts of a gold trading company; money credited to the accounts is immediately withdrawn in cash mainly in the name of the manager or president of the company.

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<sup>6</sup> The Harmonized System (HS) Codes are commonly used throughout the goods export process. The System is a standardized numerical method of classifying traded products used by customs authorities to identify products when assessing duties and taxes and for gathering statistics. The tariff code for gold waste and waste is 7112910000. See International Trade Administration at: <https://www.trade.gov/harmonized-system-hs-codes>

- Gold trading companies that receive transfers from a country other than the destination of their exports.
- Transportation of cash by persons outside the gold trading companies (presumed collectors or suppliers).
- Bank accounts belonging to commercial gold companies with withdrawals of large amounts of cash by shareholders cashing checks.
- Companies related to the gold trade that receive transfers from abroad in large amounts that are immediately transferred to the accounts of individuals with no apparent relationship to the company.
- Transfers from abroad for significant amounts received by companies that do not register foreign trade activity.



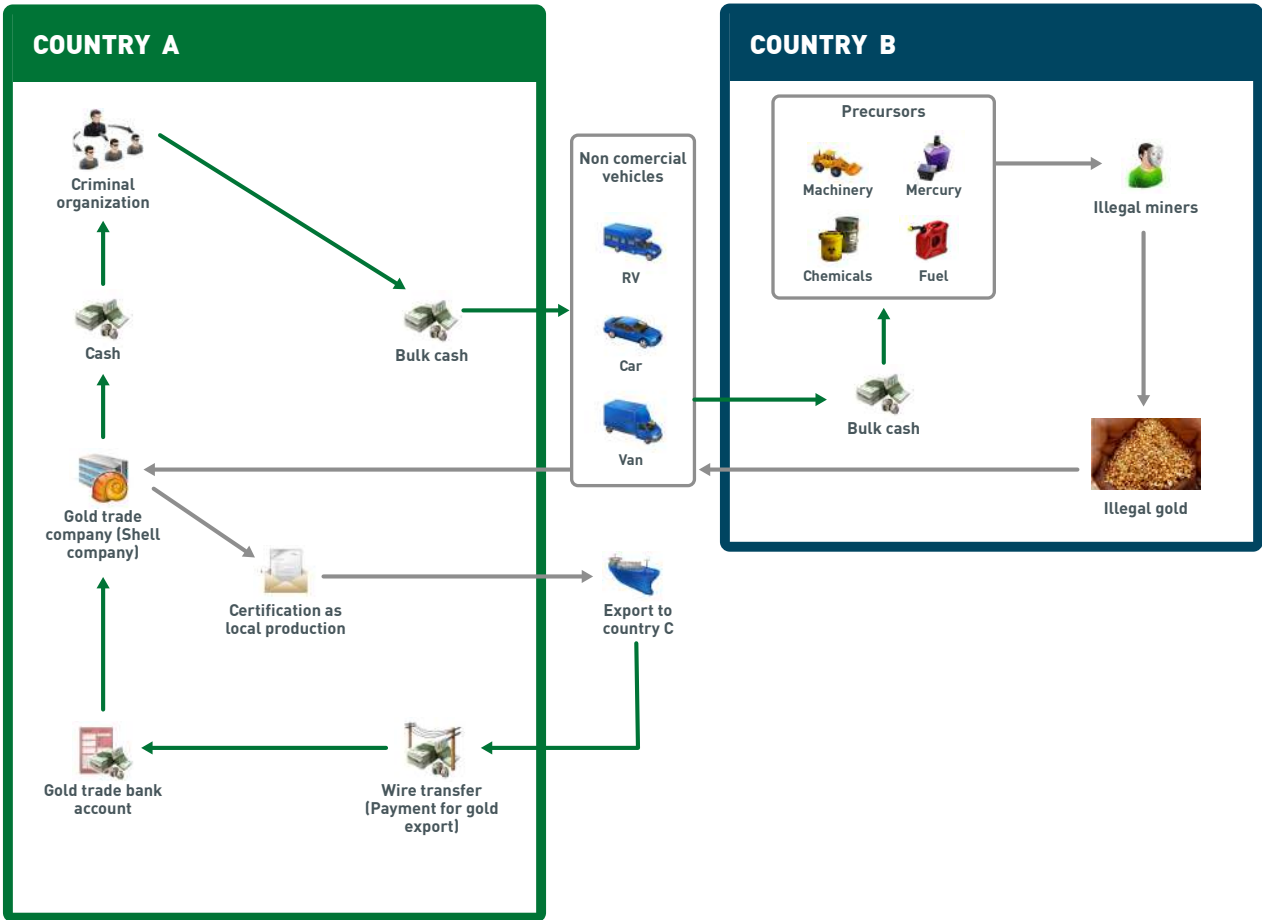
## EXAMPLE

Lax regulations and oversight in Country A facilitate the trade of illegal gold. However, conditions do not exist for significant illegal gold mining activity in the same country. In neighboring Country B, illegal gold mining activity is widespread, but oversight of the laundering of illegal gold is more restrictive than in Country B.

A gold trader from Country A develops contacts with illegal miners in Country B from which he sources illegal gold. The gold trader from Country A finances the illegal extraction of gold in Country B, including financing the purchase of necessary machinery and equipment, by smuggling cash to the illegal miners. The gold trader uses hidden compartments in non-commercial vehicles to smuggle the cash across the border between Countries A and B.

Once the gold is extracted, the gold trader in Country A crosses into Country B to take possession of the illegal gold, and then smuggles the gold into Country A, again using hidden compartments in non-commercial vehicles. Once back in Country A, the gold trader launders and processes the illegal gold by falsifying documentation substantiating its origin before exporting it to international gold refineries.

**Graph 9.** Case example of the use of the typology Contraband of Gold with the Intent to Commercialize in a Foreign Country.



**Source:** Elaborated by the author.



### 3.10 SIMULATION OF GOLD PRODUCTION USING SMALL AND MEDIUM MINING ENTERPRISES

Illegal gold filters into gold supply chains at several points between extraction and international export. The variety and quantity of actors and producers populating the lower levels of gold supply chains, including local consolidators, and artisanal and small miners, create multiple entry points for illegal gold at this point in the process. Notably, in the illegal gold supply chain, there is an inverse relationship between risk/work and reward these actors face. For example, illegal miners that extract gold and face physical violence and arrest typically receive minimal payment for their work, while firms or criminal groups that trade the illegal gold will enjoy outsized profits from its sale. In multiple cases, large mineral traders and exporters have been identified exploiting crowded gold sectors in order to obscure the illicit origins of large quantities of illegal gold and trade/export the material.

One known method centers on the creation and registration of a network of false producers of gold including shell mining companies and non-existent artisanal miners. By establishing numerous shell entities as mineral producers, unscrupulous mineral traders can then falsify several recurring transactions with these companies to justify the origin of large quantities of illegal gold. This practice exploits regulatory and oversight weaknesses in company registration processes, highlighting the challenges of identifying beneficial ownership and the ultimate beneficiaries of transactions.



#### RED FLAGS

- Small mining companies that, owing to their transactions, appear to have accounts in tax havens or jurisdictions with limited anti-money laundering controls.
- People listed as sources or representatives of large gold sales who are also registered in programs that benefit poor and low-income populations.
- Transactions of gold merchants whose legal representatives, managers, accountants, or auditors have criminal records involving links with organized crime.
- Natural or legal persons who frequently sell large quantities of gold to a gold dealer, who are not related to the sector or who cannot prove the origin of the metal.
- Exploitation and production of gold by a legal entity that does not have mining titles and that does not record the payment of royalties or taxes on its production.
- Unjustified capital increase in the bank accounts of a gold exporting company and/or its partners.

- Small mining companies that suddenly and without explanation change their corporate purpose to be able to trade and export gold.
- Small mining companies that withdraw large amounts of cash from their cash balances via shareholders cashing checks.
- Legal representatives and partners who do not register economic information matching the quantity produced / exported by their companies.
- Small mining companies that receive transfers from a country other than the destination of their exports.
- Small mining companies that frequently withdraw large amounts of cash using secure transportation vehicles.



## EXAMPLE

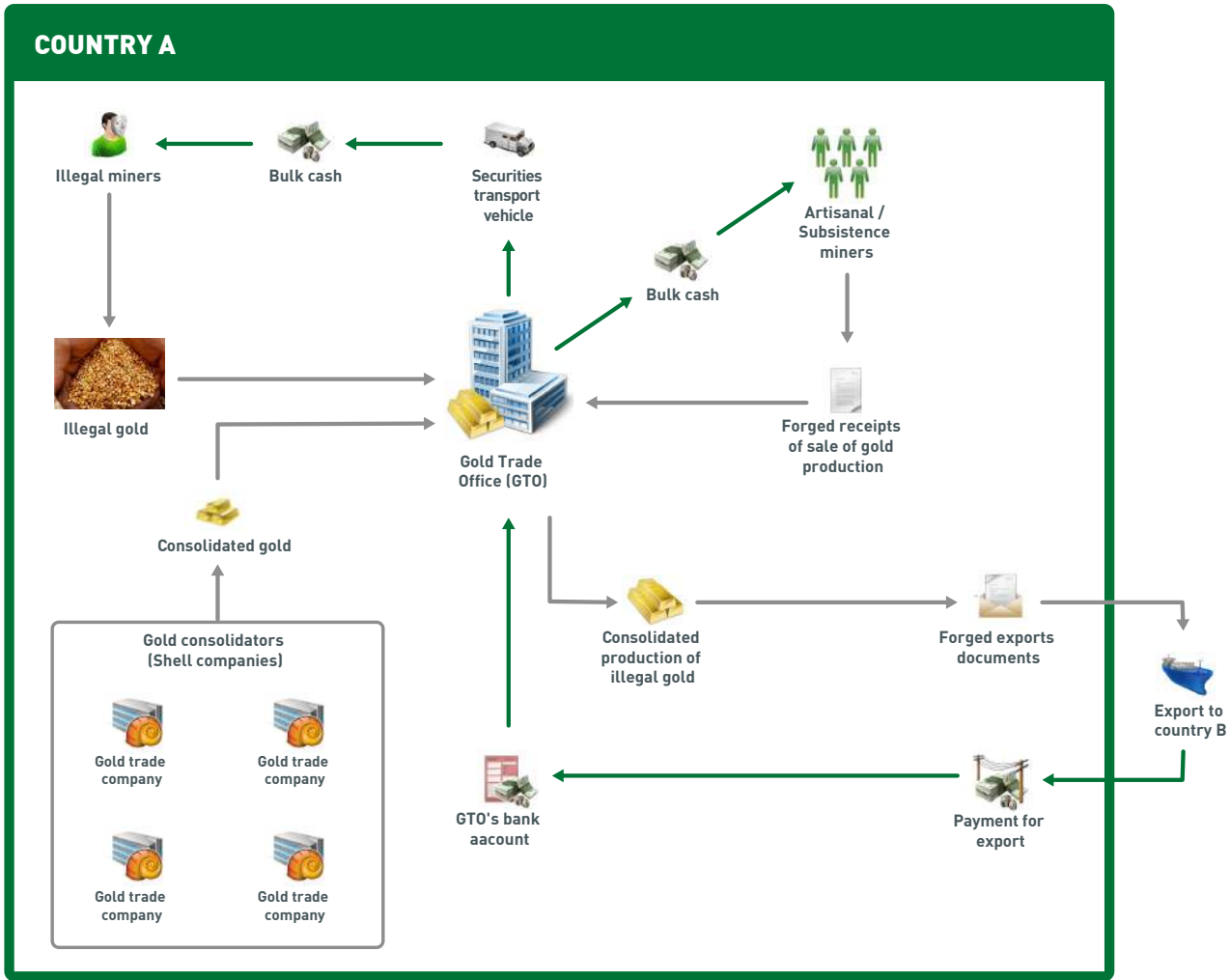
Company A, a national gold trader, purchases illegal gold from illegal miners lacking the documentation and legal authorization for commercialization. The national gold trader makes payments in cash in exchange for the illegal gold, using cash transportation companies to withdraw the funds but not registering a change in ownership of the money so as to hide the transaction.

The national gold trader creates a series of smaller shell companies, establishing them as gold consolidators and producers selling gold domestically to larger traders. In reality, these companies are wholly owned and managed by the national gold trader.

Using falsified or forged documentation, the national gold trader also registers multiple artisanal and subsistence miners in government registries using the identities of individuals that were not linked to the company or not engaged in mineral exploitation.

The national gold trader registers transactions with the false consolidators and producers of gold in order to justify and give the appearance of legality to the gold it has secured. The gold trader does not comply with the country's monitoring of money laundering requirements and does not report suspicious activity in its transactions unless questioned by oversight entities. The national gold trader then sells and exports the gold to refineries abroad and receives payment through bank transfers.

**Graph 10.** Case example of the use of the typology Simulation of Gold Production Using Small and Medium Mining Enterprises.



Source: Elaborated by the author.

### 3.11 USE OF PERMITS AND REGISTRIES FOR THE FORMALIZATION OF ARTISANAL MINERS FOR THE EXTRACTION AND COMMERCIALIZATION OF ILLEGAL GOLD

Multiple mineral-rich countries in South America have large informal artisanal mining populations which extract and sell gold in order to subsist. In an effort to introduce transparency into this aspect of gold supply chains without barring artisanal miners from the mineral trade, some governments have introduced special processes and exceptions for these actors. These include the creation of special registries and permissions that allow artisanal miners to extract and sell gold without the same scrutiny, documentation, and permits required for other mineral producers.

However, officials from the region report that these gaps enable the camouflaging of illegal gold as informal artisanal gold either by artisanal miners themselves or by other actors exploiting these special provisions. In some cases, security officials and investigators are also legally limited in their ability to act against suspected illegal artisanal mining activity, compounding the logistical limitations to monitoring and preventing illegal mining activity. In this environment, formalization efforts targeting artisanal miners actually create an important channel for the flow of illegal gold into the region's gold markets and exports.



#### RED FLAGS

- Miners who cannot justify the origin of the gold they sell, or cannot present proof of purchase of the minerals.
- Substantial gold transactions recorded by companies located in regions or municipalities without a significant mining sector and mining activity.
- Jewelers who report sales levels that are not consistent with the size of the company, or that are not related to similar companies in the same sector.
- Natural or legal persons who sell gold claiming that it was extracted in an area for which they do not have mining titles.
- Natural or legal persons who sell gold, arguing that it was extracted in areas where there are no gold mines, or there is no significant mining activity.
- Natural or legal persons with mining titles, whose extraction and production decreases for no apparent reason.



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- Companies that do not present operating expenses, such as the payment of utilities, taxes, or payrolls; supplies, or suppliers in their transactions, or financial statements.
- Companies that present as justification for their operation the purchase of gold from artisanal miners, and the documents are damaged or difficult to read.
- Artisanal miners who sell gold to companies in unusual quantities or that do not match the characteristics of the market or area of exploitation.

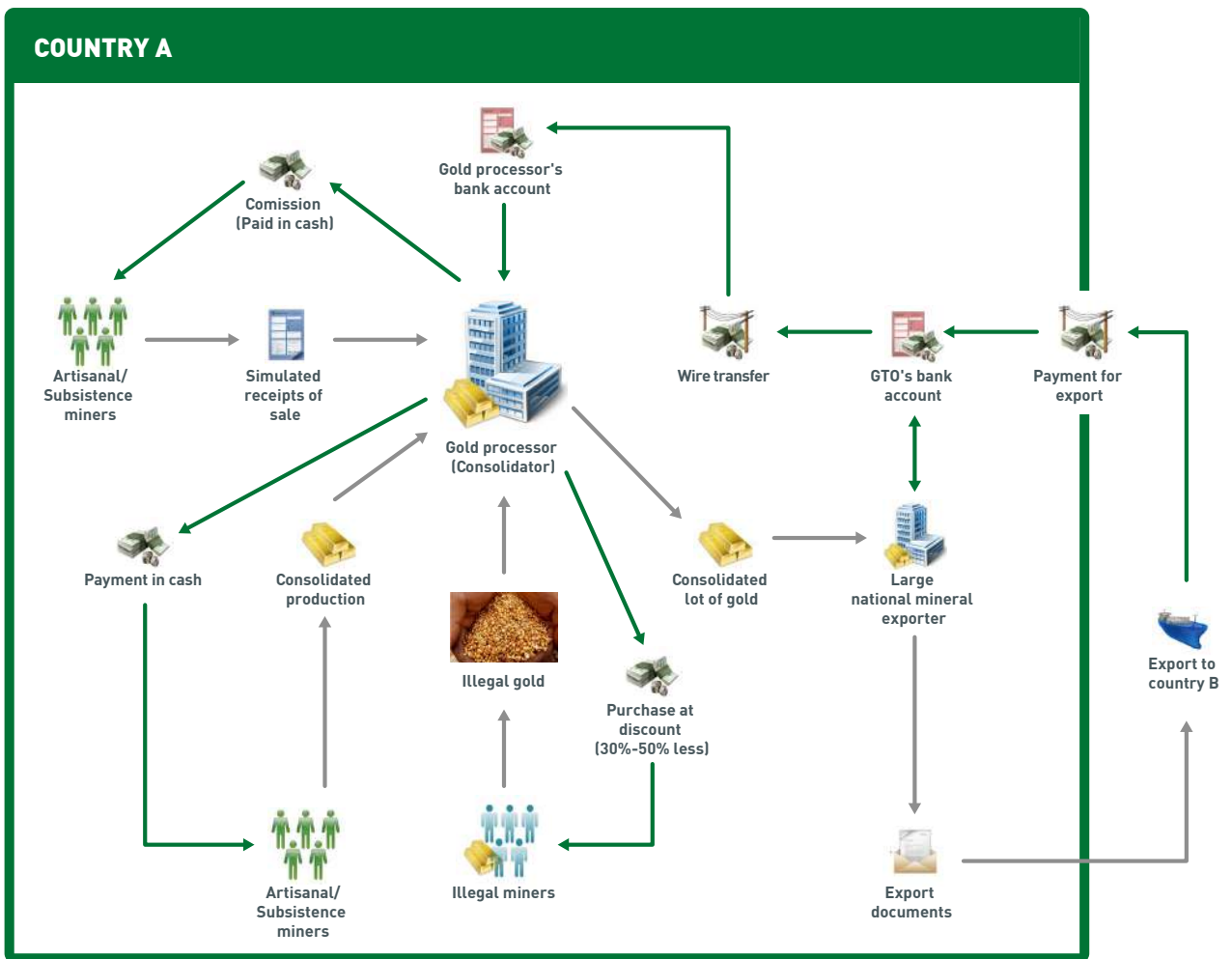


## EXAMPLE

Company A is a local gold processor/consolidator that sells minerals to Company B, a large national mineral exporter. Company A maintains a business relationship with a series of subsistence and artisanal miners possessing the legal registration required to mine and sell gold. Company A also has connections with illegal miners producing illegal gold which lacks the documentation and legal authorization to be commercialized. Company A purchases the illegal gold from the illegal miners at a heavily discounted rate, ranging on average from 30% to 50% below market prices.

Company A also purchases legal gold produced by subsistence and artisanal miners. In addition, Company A reaches agreements with the subsistence and artisanal miners under which the miners are paid a fee in exchange for agreeing to be listed as the source of illegal gold provided by illegal miners. The documentation and registration secured through this arrangement enable the local gold processor/consolidator to launder and sell both the legal and illegal gold to Company B, which provides payment through bank transfers or cash payment.

**Graph 11.** Case example of the use of the typology Use of Permits and Registries for the Formalization of Artisanal Miners for the Extraction and Commercialization of Illegal Gold.



Source: Elaborated by the author.

## 3.12 MISINVOICING OF GOLD EXPORTS TO DISGUISE ILLICIT TRANSACTIONS

One of the methods employed by actors in the illegal gold trade is trade-based money laundering. Legal trade flows are often used to disguise and transfer assets internationally through a practice known as trade-based money laundering (TBML). The Financial Action Task Force defines TBML as “the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins (...) through the misrepresentation of the price, quantity or quality of imports or exports.”

The volume, value, and frequency of international trade flows of gold from Latin America offer ample opportunities to launder and move illicit wealth across borders. By registering incorrect values of gold shipments on customs documentation and other processes, criminal actors are able to justify unrelated illicit transactions by disguising them amongst legitimate trade flows. In the illegal gold trade, these parallel illicit transactions can involve shell companies, or unscrupulous enterprises working in coordination with criminal organizations. Illicit actors in the illegal gold trade also utilize corruption and the reduced oversight offered by free trade zones to evade detection.

TBML in the illegal gold trade highlights the important role of customs agencies as well as international cooperation in combating these illicit flows.



### RED FLAGS

- Gold trading companies that carry out their operations in free trade zones or that involve other companies based in free trade zones.
- Gold trading companies that, despite being recently incorporated, present transfers from abroad for large sums of money.
- Gold export operations whose values are lower than the values received via the transfers corresponding to their payment.
- Gold exporting companies that present unjustified capital increases that are reflected in their bank accounts or those of their partners and/or employees.
- Companies that carry out substantial gold exports that do not match the profile or size of the company as recorded in government export documentation.
- Substantial gold transactions recorded by companies located in regions or municipalities without significant mining sector and mining activity.



- Gold export companies that refuse to comply with physical inspection controls by customs agents or seek mechanisms to avoid them.
- Gold exporting companies that do not have a record of royalty payments.
- Companies that frequently make large cash withdrawals using armored vehicles.
- Newly created gold trading companies that quickly have high balances in their bank accounts much of which is due to transfers sent from abroad.
- Gold trading companies that, despite not registering foreign trade operations, receive transfers from abroad in significant amounts.
- Gold exporting companies that receive transfers from a country other than the destination of the exports.
- Gold exporting companies that register the withdrawal of funds by investors or individuals whose commercial activity does not correspond to the mining sector.
- Gold exporting companies with transactions involving frequent amendments to letters of credit without reasonable justification.
- Gold exporting companies whose payment method is inconsistent with the risk characteristics of the transaction, potentially involving advance payments for the shipment of gold.

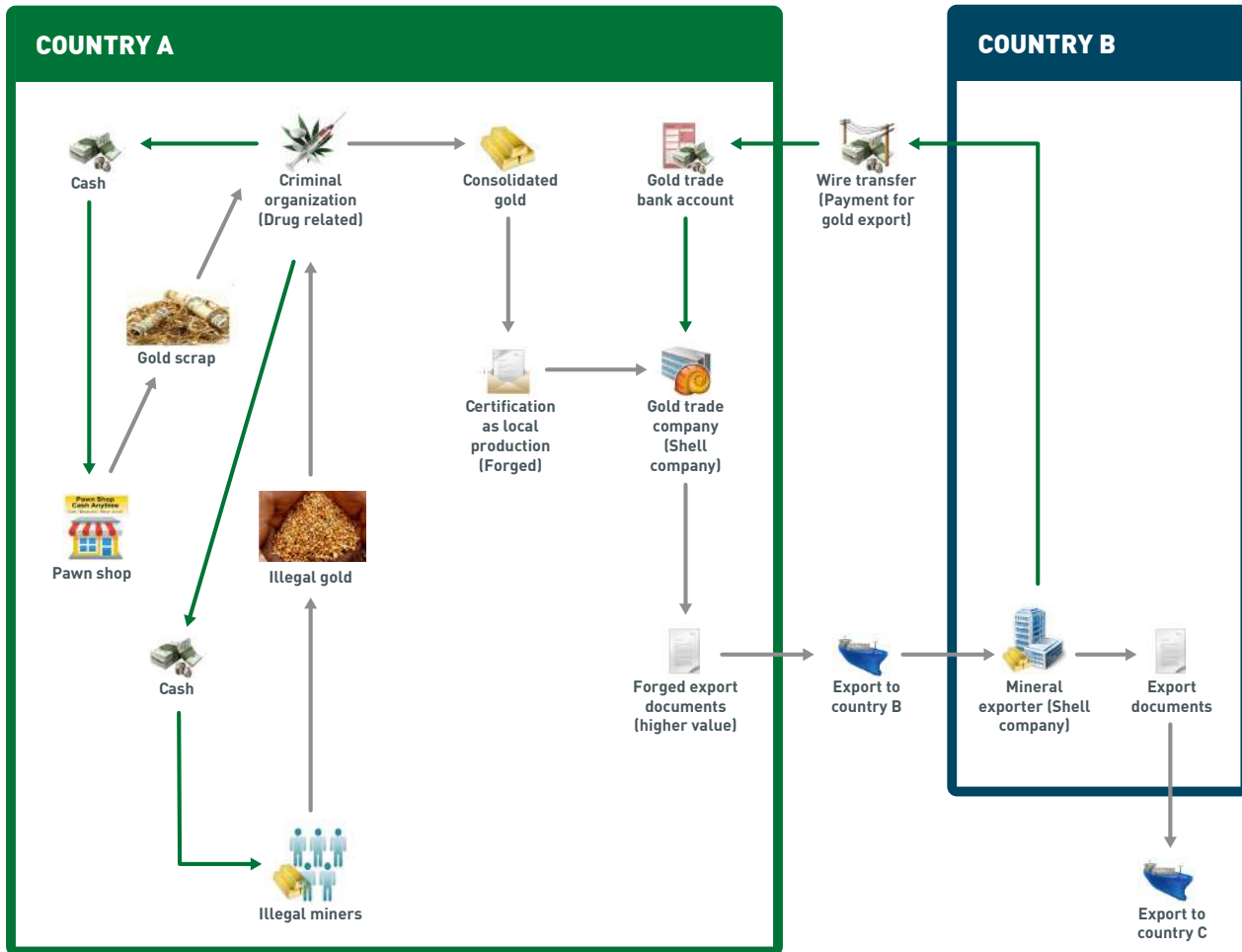


## EXAMPLE

A drug trafficking organization (DTO) is based in Country A, where illicit drugs are produced. The DTO seeks to repatriate and launder illicit drug money located in Country B where illicit drugs are sold. The DTO establishes a front company in Country A dedicated to the export of gold and purchases illegal gold from small and artisanal miners paying cash from illicit drug sales.

The DTO also establishes a front gold importing company in Country B. The DTO then uses falsified documentation to export the gold through the front company in Country A to Country B, but records the value of the shipment with government and customs officials in significant excess of the shipment's actual value. This gold is then received by the front company in Country B, which transfers drug money back as payment for the inflated value of the shipment through bank transfers to the front company in Country A.

**Graph 12.** Case example of the use of the typology Misinvoicing of Gold Exports to Disguise Illicit Transactions.



Source: Elaborated by the author.

### 3.13 USE OF HUMAN COURIERS TO SMUGGLE ILLEGAL GOLD

In recent years, the governments of countries with significant illegal mining activity have bolstered their enforcement efforts to ensure the oversight and integrity of mineral supply chains. Such efforts include increased verification of gold origins and increased scrutiny of exports, adding barriers and risk to the ability to commercialize illegal gold domestically. As a result, actors in the illegal mining trade are reportedly increasingly seek to smuggle illegal gold from the country of origin and ultimately commercialize the illicit minerals outside of the country. The use of human couriers by criminal gold smuggling networks is a prominent method facilitated by high rates of poverty and unemployment, among other factors that offer criminal rings a sizable population of potential human couriers to exploit.

Indeed, large scale movements of refugee populations in the region have reportedly been exploited by criminal actors to this end, who induce them to cross formal and informal land borders with contraband gold, and return with payment in the form of cash or high-value goods. However, like drug smugglers, gold smuggling networks also are known to frequently utilize commercial air travel, including by sending smugglers as passengers on airlines, clandestinely carrying illegal gold on their persons or in luggage. Precautions are taken to camouflage the illegal gold and evade detection by authorities. In some cases, smuggling rings will also offer bribes to enlist the cooperation of airport officials in evading the detection of smuggling activity. In addition to bypassing domestic controls over gold supply chains, smuggling illegal gold out of the country of origin through human couriers can also serve to bring the illicit minerals closer to international buyers and refiners. Lastly, some human couriers are used to retrieve cash or goods on their return trip from the drop-off destination of the smuggled gold.



#### RED FLAGS

- People who frequently travel with luxury jewelry in sight and in their luggage who behave in ways that are not in accordance with the travel dates or destinations.
- Transfers from abroad for significant amounts received by companies that register no or minimal foreign trade activity.
- Persons or groups of persons apparently linked to gold trading companies who travel with large sums of cash and/or jewelry with high commercial values, and who have no previous migratory movements.
- Large-quantity gold transactions recorded by companies located in regions or municipalities without significant mining sector and mining activity.
- Travelers who, despite traveling with gold, large sums of cash or jewelry, do not have financial system products (savings accounts, checking accounts or credit cards), or records.

- Natural or legal persons that sell gold claiming that it was extracted in an area that does not have mining titles.
- Travelers carrying cash or high-value jewelry who do not know the details of their travel arrangements (such as return itinerary, date of purchase, or method of payment for tickets), or conditions at the place of destination (such as place of accommodation or contact persons).



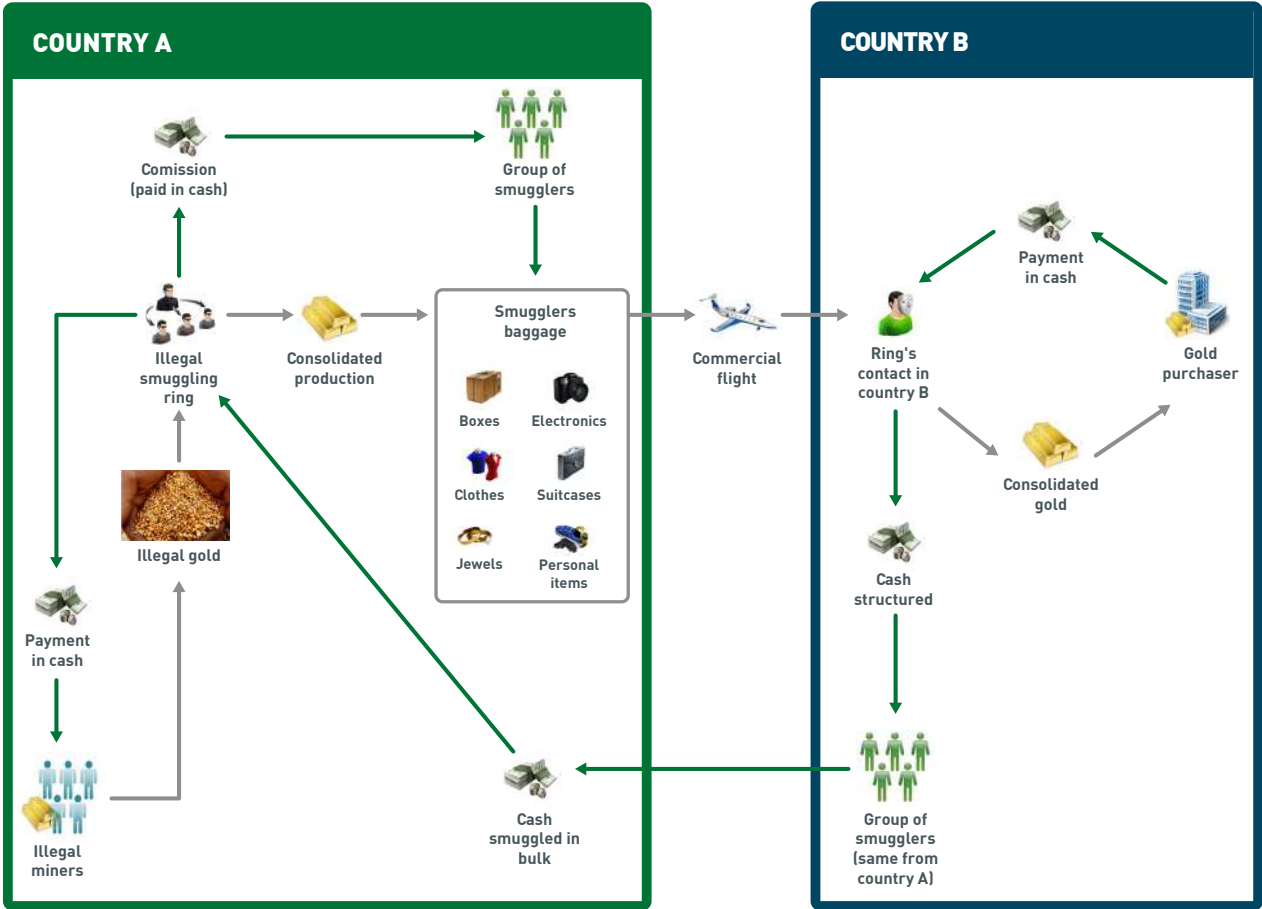
## EXAMPLE

An illegal gold smuggling ring is based in Country A where illegal gold is extracted but oversight over the gold trade make it difficult to sell/export the illicit mineral without detection by the authorities. The smuggling ring agrees to smuggle illegal gold to a foreign gold trader in Country B where the illegal gold can be sold and exported more easily.

The smuggling ring purchases illegal gold at a discounted price from illegal gold miners that lack the authorization to extract and commercialize the precious metal. The smuggling ring enlists a series of human couriers, charging them with the clandestine transportation of illegal gold out of the country on passenger flights to Country B. The smuggling ring processes and camouflages the illegal gold as low value personal items, including belt buckles and jewelry to conceal its value and evade detection by officials.

The smuggling ring then sends the human couriers carrying the illegal gold on passenger flights with commercial airlines. Upon arrival in Country B, the couriers turn over the illegal gold to a purchaser who then falsifies documentation permitting its commercialization. The couriers are given payment for the illegal gold in cash or high value items which they conceal, before returning on passenger flights to the smuggling ring in Country A.

**Graph 13.** Case example of the use of the typology Use of Human Couriers to Smuggle Illegal Gold.



**Source:** Elaborated by the author.

### 3.14 SIMULATING GOLD PRODUCTION THROUGH AN INACTIVE LEGAL MINING SITE

The lack of government presence in remote mining areas and the proximity of legal and illegal mining sites to one another opens up opportunities for the convergence of legal and illegal mining activity involving both legal and illegal actors. Proper oversight preventing this convergence is further complicated by the significant population of small and medium-sized mining enterprises active in the region's mining sectors carrying out activities ranging from extraction and processing to the trading of minerals.

The convergence between legal and illegal mining can take many forms and take advantage of the legal operations of small and medium-sized mining firms. Examples include legal mining firms illegally extracting minerals beyond the confines of an approved site, the use of illegal mining practices to extract minerals from a legal site, or criminal groups extorting legal mining operations.

More complex schemes are also found, with small and medium-sized mining firms and sites being used as vehicles for the laundering of illegal gold. In some cases, officials and locals report long-inactive mining sites that, on paper, continue to produce significant amounts of gold, which is then commercialized in domestic and international markets. Such examples illustrate another concerning channel through which illegal mining corrupts and compromises the integrity of the legal mining sector.



#### RED FLAGS

- Mining companies that, despite not having installed capacity in operation, report the exploitation of large quantities of gold.
- Employees of mining companies such as managers, administrators, legal representatives, or accountants who issue and cash checks claiming that it is for payment of the day-to-day operations of the mine.
- Accounts of mining companies that receive transfers from abroad for large sums of money, which are almost immediately withdrawn in cash by natural persons.
- Mining companies that, despite reporting significant gold production, do not have contacts or relationships with other companies located in the same area of exploitation.
- Accounts of mining companies that despite receiving income from the export of gold, do not report operating expenses such as payroll, purchase or maintenance of machinery or logistics materials, payment of public services, and payment of taxes or royalties.

- Mining companies whose managers or administrators are reluctant to allow supervisory visits, or who, compared to other companies located in the same geographic area, do not receive visits with the same frequency.
- Mining companies that frequently contract cash transportation services to or from their operating sites.
- Mining companies that despite having a high production, do not request loans or other financial products, and do not have a history of using such products.
- Mining companies that repeatedly change their shareholders, administrators, accountants, or legal representatives, or their organizational structure.
- Mining company that cannot provide evidence that proves the origin of the gold they produce or trade.



## EXAMPLE

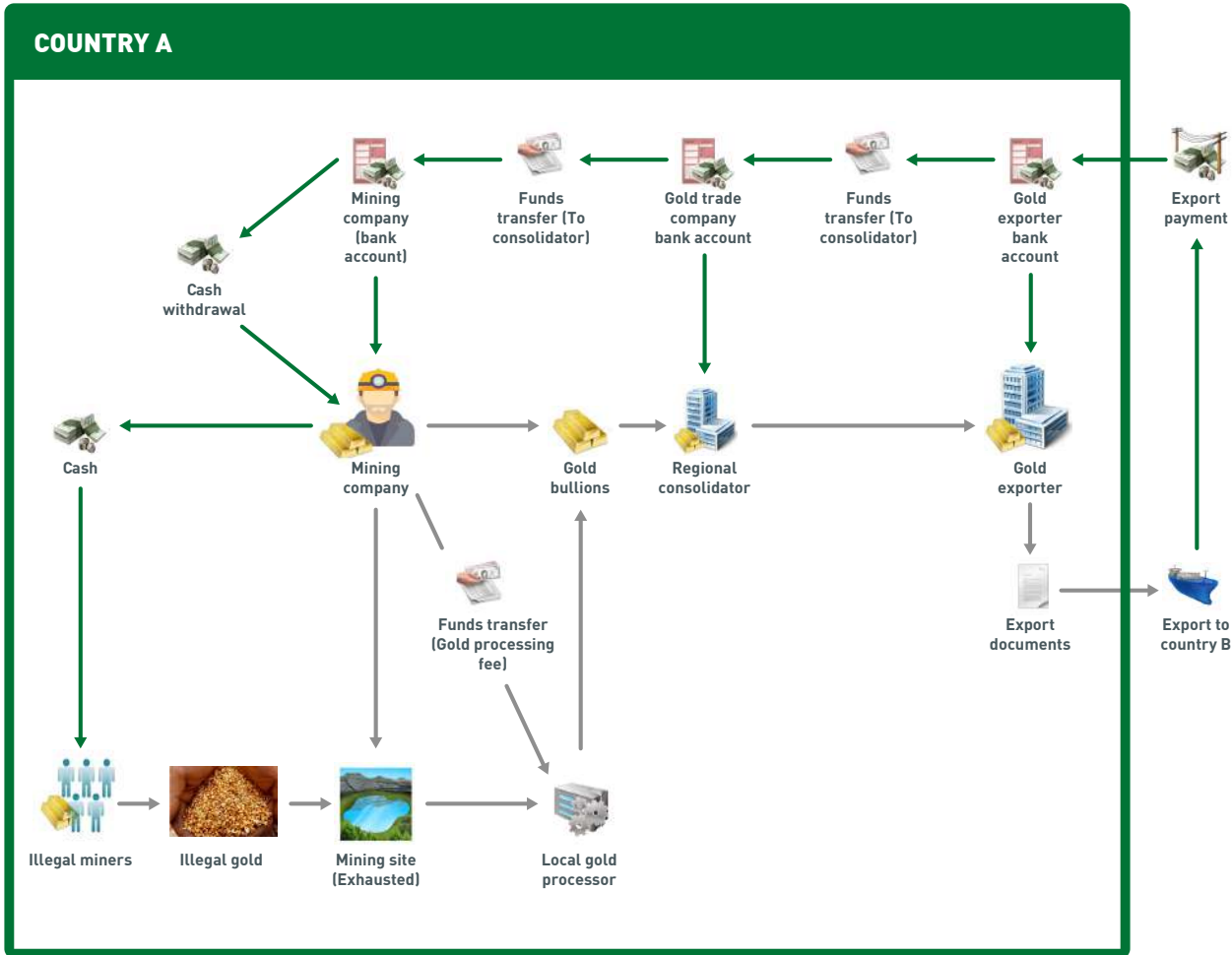
Company A, a small/mid-sized mining company, secures the title and legal rights to extract and sell minerals from a site in a region with significant mining activity. Company A partners with local gold processors to process the legal gold before selling it to Company B, a regional gold consolidator that then sells it to national exporters.

Once the mineral resources at the site have been exhausted, the mining company purchases illegal gold at a heavily discounted rate from a group of illegal miners operating at nearby illegal sites. Company A launders the illegal gold, obscuring its illicit origins by passing it off as more gold extracted from the mining site which it has legal rights to exploit. Then, Company A processes and sells the gold through the same processors and gold traders previously utilized for the legal gold.

Payments for the illegal gold mirrors the payments for the legal gold which are made through bank transfers and checks from Company B to Company A. Company A withdraws part of the payment using checks written for employees of Company A, but gives the cash to the illegal miners as payment for the illegal gold.



**Graph 14.** Case example of the use of the typology Simulating Gold Production through an Inactive Legal Mining Site.



Source: Elaborated by the author.



Interdiction against illegal mining in the Malinowski River carried out by the Port Authority of Puerto Maldonado in coordination with the Army of Peru, the Attorney General's Specialized Office in Environmental Matters (FEMA) and the National Police of Peru.

### 3.15 USE OF LOANS WITH MONEY OF ILLICIT ORIGIN TO FINANCE ILLEGAL MINING ACTIVITIES

Starting and sustaining an illegal mining operation requires a constant flow of money, starting with that needed for the establishment of the exploitation site. Once the site is established, steady output is needed to support the illicit operation. This implies that production capacity is a function of the amount of ore that is illegally mined. For illegal small-scale miners, it is a very risky investment, particularly since it is done without previous studies of potential output or of the cash flow needed to sustain the illegal mine.

On some occasions, small illegal miners gain access to credits in the formal financial system by declaring other types of activities or using false or forged documentation. When this is not possible, they turn to alternative financing systems such as "drop-by-drop loans" (also called express loans). Drop-by-drop is an informal loan modality that offers illegal miners the possibility of obtaining credits in a few hours without the need for collateral or guarantees, and to which high interest rates are applied (sometimes exceeding 100% of the amount borrowed), which sometimes makes repayment impossible. Payments are made to the lender on a daily basis (drops) and are collected by members of the criminal organization who sometimes use violence to make collections. Payments for loans can be made in cash or in kind (gold), depending on the initial loan arrangements.

It is important to note that lenders do their best to pay off loans, for their own safety, but also to have a line of credit open in case of emergency.



## RED FLAGS

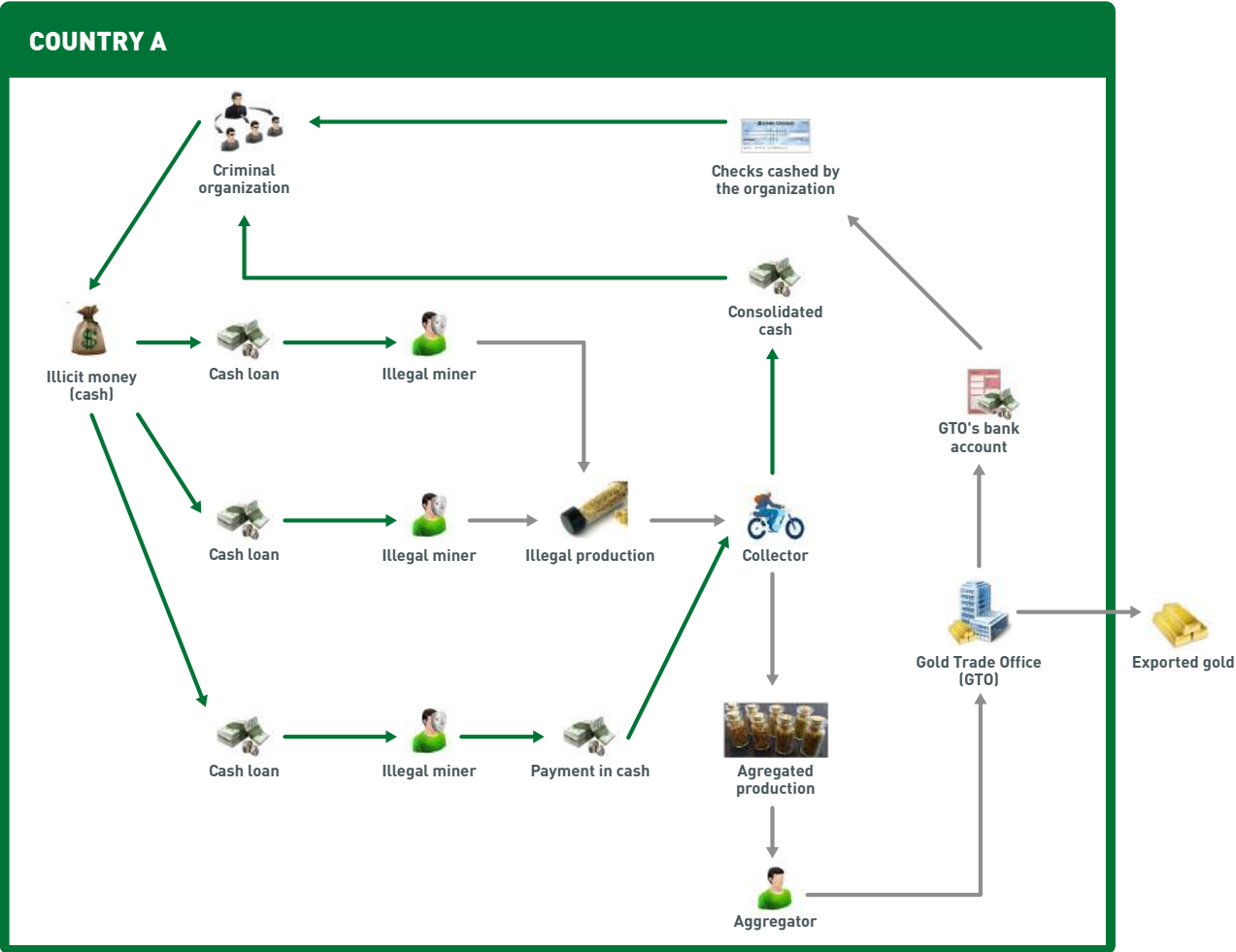
- Mining production areas characterized by high movements of cash, and low activity involving loans and other financial products.
- Offices of financial entities with high volumes of cash transactions and few movements in other financial products.
- Clients who regularly and without explanation cash checks for large sums of money.
- Users of financial entities that make cash deposits in large amounts and frequently, without declaring their economic activity or the origin of the resources.
- Suppliers of goods and services that use cash to conduct all their economic activities.
- Suppliers of goods and services that frequently and without further explanation contract cash transportation services.
- Companies in the mining sector whose expenditures on their financial products are mostly represented in checks that are later cashed by their beneficiaries.



## EXAMPLE

A criminal organization commits crimes in an illegal mining exploitation area. As proceeds from the commission of various crimes, the organization obtains significant amounts of cash. One of the mechanisms it has to circulate the money is through “drop-by-drop” loans to three illegal miners who need urgent resources for the exploitation of their sites. The organization delivers cash to these sites over a 30-day period, at the end of which the illegal miners must pay the borrowed money plus 20% interest. In the agreement, one of the illegal miners agrees to make 30 daily payments in cash, and the other two agree to pay in gold as a result of illegal exploitation. Illegal miners use the cash to purchase precursors and materials for the operation of the mine. Every day a collector on a motorcycle shows up to collect the quotas from the miner that pays him in cash, and at the end of the month he collects the production corresponding to the other two miners. The collector delivers the gold production to an aggregator who is part of the criminal organization, who in turn sells it to a legally constituted trading company that is linked to the organization. As payment for the sale of the gold, the trading company issues checks made out to members of the organization who pose as small gold producers, which are later exchanged for cash, which in turn is returned back to the organization.

**Graph 15.** Case example of the use of the typology Use of Loans with Money of Illicit Origin to Finance Illegal Mining Activities.



**Source:** Elaborated by the author.



*Geological Services Division of the Guyana Geology and Mines Commission.*

### **3.16 USE OF ALTERNATIVE SYSTEMS FOR THE TRANSFER OF MONEY OF ILLICIT ORIGIN FROM ILLEGAL MINING**

The illegal exploitation of minerals requires a constant flow of money that begins with the installation of the mining site and continues with the maintenance of the operation, which includes payment for precursors materials and labor. The remote location of the exploitation zones means that on some occasions illegal mines are established in border areas controlled by Organized Armed Groups and Transnational Organized Crime. In some countries, criminal organizations often take advantage of the porosity of borders to use the labor of migrant workers from other countries, with or without illegal mining experience.

Given the remote conditions of these mining sites, illegal miners require workers to stay for long periods of time in order to maximize profits from illegal activity. As this is a subsistence job, workers need to send money to support their families in their places of origin (inside or outside the country where the illegal exploitation site is located).

This is how criminal organizations establish alternative money transfer systems in which they locate a “payer” and a “recruiter” in the places where they look for workers. The recruiter, in exchange for a commission, is in charge of looking for the workers that are needed at the site of illegal exploitation. The payer, in some opportunities, gives advance payments to the workers so that they can move to the places where they are required. After working time in the illegal mine, workers can request payment orders to their relatives that are deducted (with interest in some cases) from the payment for their working days. Payments are made



by the “payer” in foreign currency or in local currency, so they do not arouse further suspicion. On some occasions the organization uses returning workers to ask them, in exchange for a commission, to transport gold or cash to be delivered to the “payers” or other members of the organization.



## RED FLAGS

- Illegal mining exploitation areas with a high presence of foreign workers, without any money transfer transactions.
- Populations in which, despite not having gold mining areas, there are frequently people who sell gold extracted from mines.
- Customers who, without a justified economic activity, make purchases or transactions in cash or in foreign currency.
- Groups of travelers who carry cash or gold, or try to hide it in their luggage.



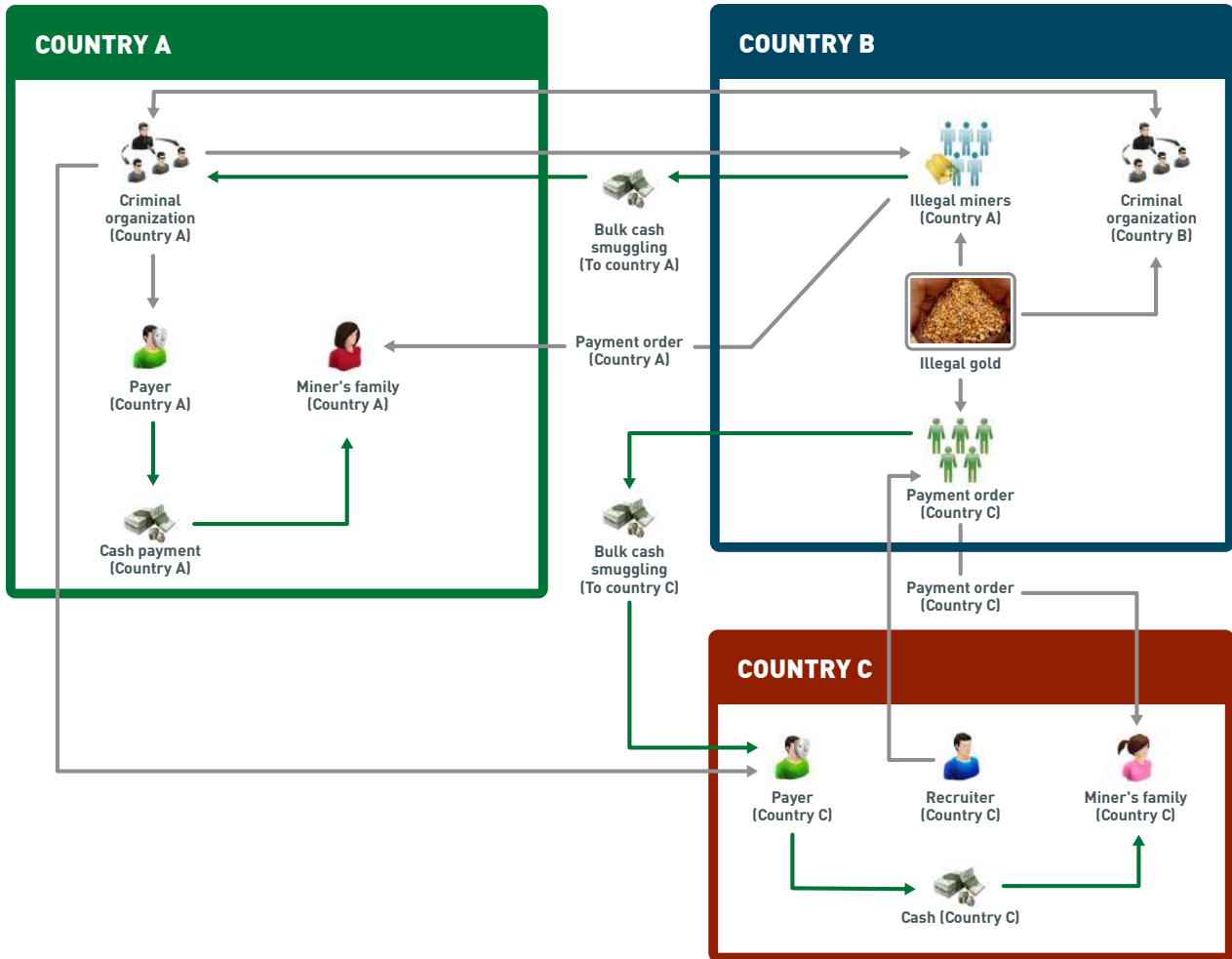
## EXAMPLE

A criminal organization located for illegal mining in Country A has links with a criminal organization in Country B, in which it controls an area of illegal mining exploitation. The two organizations agree to open illegal mining sites in Country B, for which the organization in Country A recruits experienced miners who are illegally entered into Country B. With the help of a recruiter in Country C, the organization in Country A recruits inexperienced workers who, being paid a small advance, travel illegally to Country B to work at the site of illegal gold exploitation.

After some time working in Country B, workers send a payment order to their families, so that they contact the organization’s payer in both Country A and Country C. Payments are made to designated persons in cash, in foreign currency or in local currency. As the payments are made, the organization deducts them with interest from the workers’ wages or salaries that are paid in cash or with a part of the gold produced. After a while, the workers return to their places of origin, and some of them carry illegal gold or cash hidden in their luggage that is later delivered to the criminal organization in Country A.

In addition to the advantages associated with the transfer of money, the criminal organization avoids the risks involved in handling cash at the exploitation sites.

**Graph 16.** Case example of the use of the typology Use of Alternative Systems for the Transfer of Money of Illicit Origin from Illegal Mining.



Source: Elaborated by the author.

# 4 CURRENT CHALLENGES IN COMBATING ILLEGAL MINING

## 4.1 LIMITS ON INTERNATIONAL COOPERATION

While illicit networks within the international gold trade have been finely honed, governments and officials continue to lag behind in coordinating enforcement efforts across borders. Slow and limited international cooperation leaves many officials with only a partial view of the transnational illegal gold networks that run through their countries. The issue is particularly acute in neighboring countries that share borders but have significantly different legislations relating to the importation of mercury and other precursors for extracting gold or verification in gold reporting standards. If importing mercury is legal or unsanctioned in one country, it will flow in there and then be smuggled into nearby countries where the chemical is illegal or controlled. If illicit gold can easily be pushed to the market in one country while being more difficult in a neighboring country, the illicit gold will flow through the port of least resistance.

A related issue is the use of gold in trade based money laundering (TBML), which takes advantage of the complexity of international trade systems across multiple jurisdictions. TBML is the process of disguising the proceeds of crime and moving value through commercial transactions in order to legitimize the illicit origin of the funds and integrate them into the formal economy. TBML includes over-invoicing or under-invoicing for shipments going abroad, and over-shipment and under-shipment of products. Verifying the size and value of shipments is difficult, especially across jurisdictions, allowing the anomalies in transfers of goods and wealth to go largely undetected, and TBML is widely used by drug trafficking organizations and other criminal organizations across the Hemisphere.



For investigators, significant challenges also arise from the uneven enforcement and oversight of illegal gold among governments which, in some cases, creates virtual safe havens for the flow and camouflaging of illegal gold. When illegal gold networks can run through countries that do not actively investigate and interdict illicit gold-related financial flows, illegal gold mining is sustained and promoted even in countries whose governments expend significant resources to combat the illicit activity.

These realities underscore the urgent need to increase both cooperation and the exchange of information across governments, as well as for the regional harmonization and global oversight of the gold trade.

## 4.2 LIMITS ON NATIONAL COOPERATION

In most countries, combating the flow of illicit gold is also marked by a lack of information sharing, the creation of stovepipes, and a significant lack of coordination in inter-agency efforts. The mining ministry may not share information with the forestry ministry, although both are combating the same criminal organizations. Law enforcement is frequently isolated from mining inspection teams, and financial investigations are often walled off from smuggling and customs investigations. Agents investigating illicit activities in remote border regions often have no way to share their investigative findings with national authorities to map national criminal organizations and take coordinated actions against them.

These significant disconnections within governments are often the result of bureaucratic infighting and inefficiencies, but also a result of an overall lack of understanding of the illicit gold trade, its operators, and its complexity. Corruption further complicates these coordination challenges and thrives off the lack of additional oversight and accountability that would otherwise be offered by fluid information sharing and coordination across government entities. The end result often is not a lack of information on illicit gold flows, but the lack of accessible and centralized information for those agencies and agents working toward a common goal. Hence, creating an inter-agency process to share information and coordinate actions is imperative.

## 4.3 CAPACITY TO CO-OPT LEGAL ENTITIES

Just as established drug trafficking organizations are attracted to the profits of the illegal gold trade, multiple cases have shown that a range of legal companies are also pulled in by the promise of illicit gold profits. Companies compromised by the illegal gold trade can range from local gold processors to international gold traders, which then offer an important avenue for illegal gold flows into legal markets and ensure the viability of the illegal gold trade.



Different government entities coordinating a raid with the leadership of the Prosecutor's Office.  
*Author: State Attorney's Office / Lenin Montalvo.*

In some cases, larger companies trading in illegal gold benefit from being able to conceal illegal gold transactions among high volumes of legal transactions. Smaller firms, particularly in remote areas, also enjoy the protections offered by comparatively lower levels of attention and oversight by officials. Oversight challenges are also multiplied by the prevalence of informal cash transactions in the gold sector.

These challenges underscore the importance of bolstering the oversight capacities of officials and investigators. Additionally, ensuring enhanced due diligence standards for firms in the gold trade is essential to prevent the co-opting of the legal gold sector. Governments should also reevaluate the nature and application of penalties for non-compliance and the commercialization of illegal gold by firms, to further increase the costs of trading in illegal gold.





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