



LEVIN SOURCES

Illicit Financial Flows in Artisanal and Small-scale

Gold Mining

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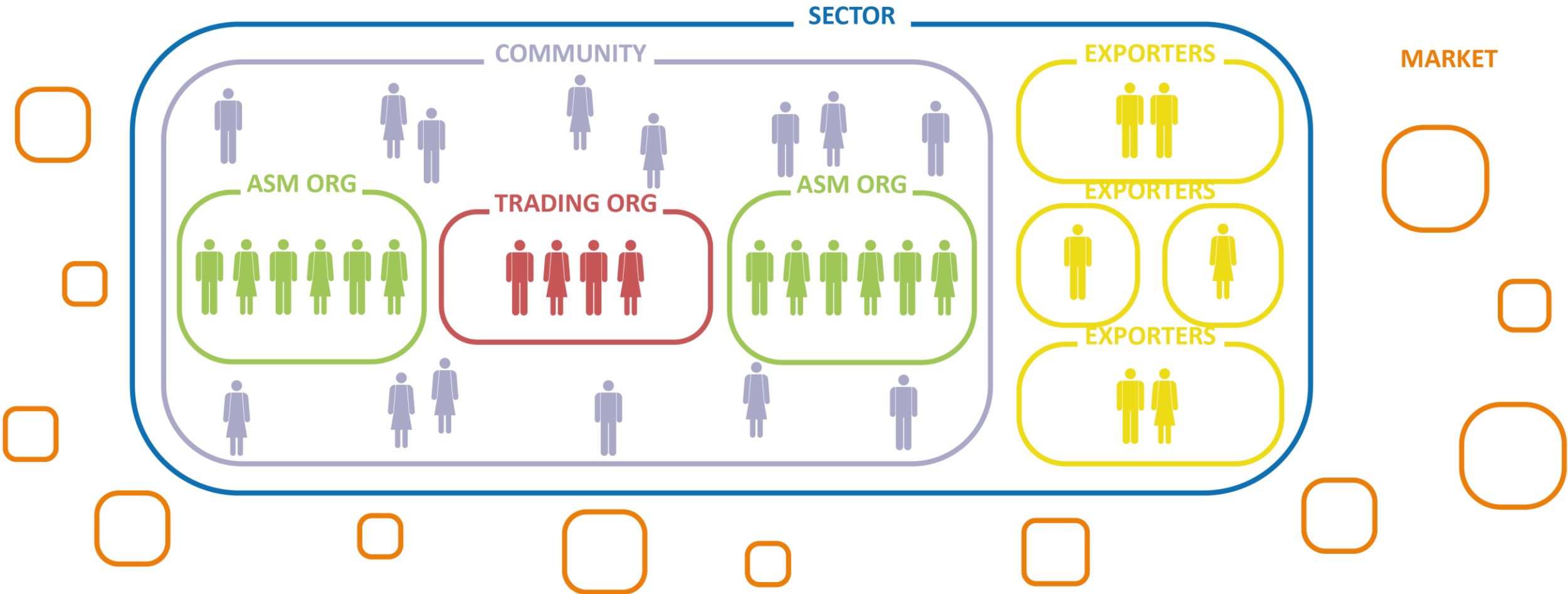


Presentation Objectives

1. Highlight the importance of the underlying political economy for effective policy formulation for artisanal and small-scale gold mining
2. Introduce the '*Gold and Illicit Financial Flows (GIFF)*' toolkit
3. Illustrate the GIFF concept and its application with the help of a recent case study for Mongolia



Scales of intervention: a holistic approach





Scale: formalising a sector

The Resilience Pathway	Stage 1 CRIMINAL ILLEGAL	Stage 2 ILLEGAL INFORMAL	Stage 3 LEGAL INFORMAL	Stage 4 FORMAL RESPONSIBLE	Stage 5 RESPONSIBLE ETHICAL
GOVERNANCE STATUS	ASM outlawed and/or bad enforcement and/or corruption	Governance focus on repression / eradication of ASM	Governance anomalies with legal ASM	Stable governance virtually free of anomalies	Governance an example to other sectors
POLICY STATUS	Bad or absent policy incentivises criminality	Policy incentivises irresponsible LSM	Policy incentivises legal LSM and ASM	Policy incentivises responsible LSM and ASM	Policy drives ethical LSM and ASM
HUMAN RIGHTS STATUS	Widespread human rights abuse, including worst abuses	Human rights status worse than the national trend, some worst abuses	Human rights issues mild but less good than the national trend, may be some worst abuses	Human rights issues are rare, generally in line with national trend	Positive net contribution to human rights – better than national trend
BUSINESS INVOLVEMENT	Exclusively illegal business	Both illegal and informal business involved	Mainly informal legitimate and legal business involved	Mainly legal compliant businesses	Significant ethical businesses
RISK MANAGEMENT	Risks generated by the sector; Sector exploited by criminals for commercial ends	Risks generated by the sector; some criminal exploitation likely	Some risks mitigated; remediation unlikely	Risks mitigated; remediation of worst abuses happens; development outcomes may arise	Risks mitigated; remediation happens across issues; positive development outcomes actively pursued
OPTIONS FOR STRATEGIC INTERVENTIONS TOWARDS PROGRESS	The GIFF Project Tools Integrity Action's Development Check Tool OECD Due Diligence Guidance	World Bank and Development Agency Interventions create Enabling Environment for starting formalisation	Due Diligence Initiatives based on the OECD Due Diligence Guidance	Responsible Business initiatives, e.g. SBGA – Better Gold initiative (Peru 2013) RJC	Fairmined and Fairtrade CCCMC



How do IFFs work through the ASGM

sector?

Gold can service a range of commercial or financial needs

- Gold is a commercial tool
- Gold is currency
- Gold is a financial instrument

Gold has characteristics that make it vulnerable to use by criminal interests

- Gold offers easy anonymity
- Gold is easily smuggled
- Gold's value is relatively predictable. The weight and quality of gold can be assured
- Gold's inherent value makes it a global currency





What is GIFF? And why now?

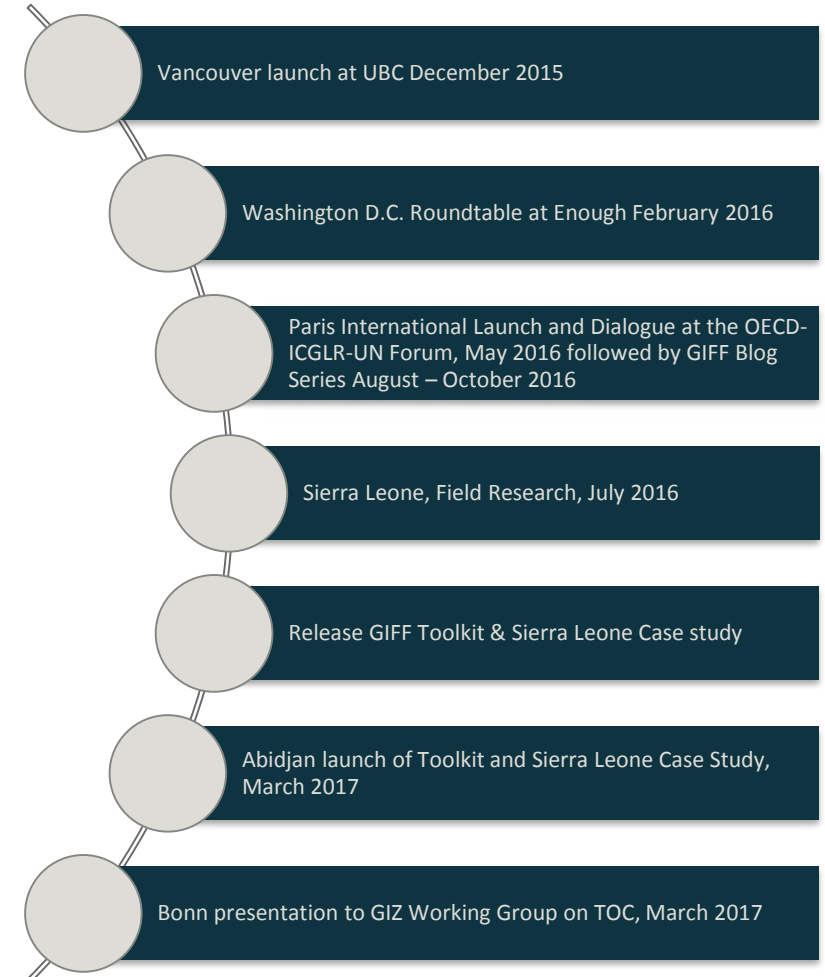
Background

- Policy agenda putting increasing emphasis on the formalisation of ASM
- Elephant in the room: Money. Mining starts with money, but it is largely absent from policy dialogue
- Built a cooperation and concept with the Global Initiative against Transnational Organized Crime to fill this gap
- Seed funding from Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

Purpose

- To build understanding of financial flows linked to ASGM to strengthen international responses to financial crime and to aid formalisation
- Test and illustrate how IFFs impede formalisation and related challenges, e.g. mercury use, criminal networks
- Emancipate people from criminality into formality

Major Activities



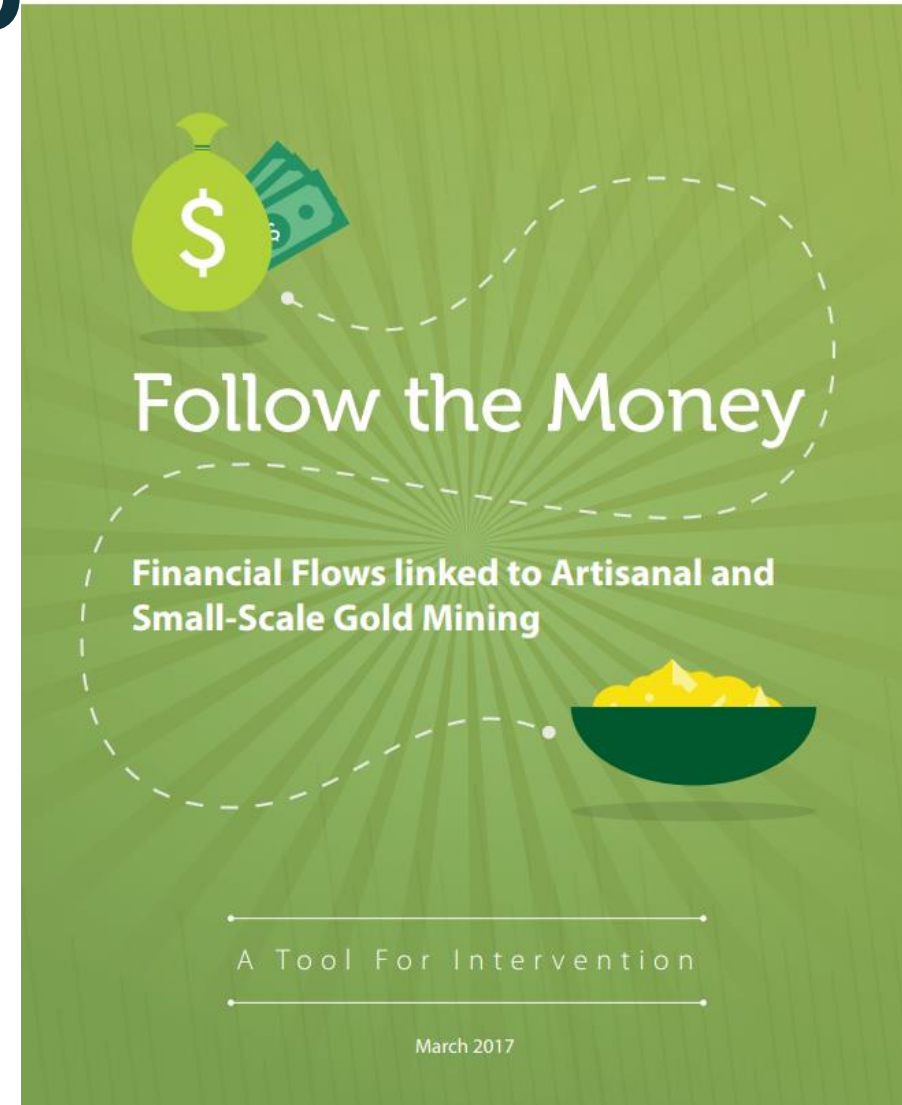


A tool for interventio

Purpose is to help actors to:

- Increase their knowledge and understanding of financial flows, including IFFs linked to the ASGM sector
- Build capacity to analyse and effectively capitalise on opportunities
- Mitigate and respond to the challenges and obstacles IFFs pose to the formalisation of ASGM sector other development objectives.

Translated into Spanish in 2017. Intention to add additional tools in time.



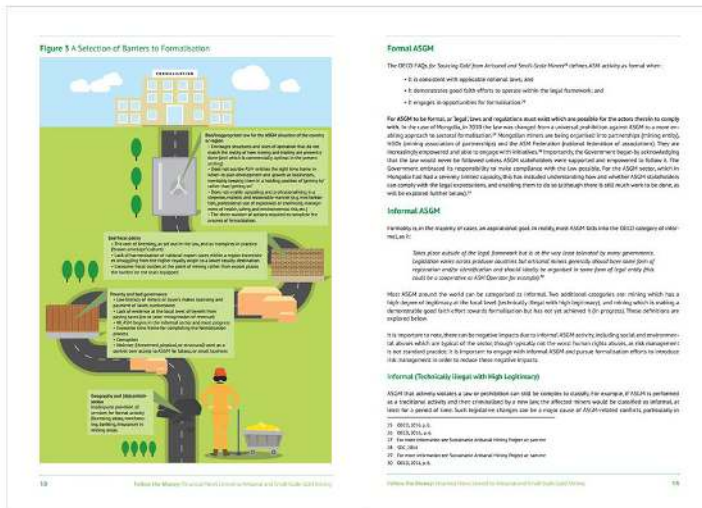


Scope and contents

Applicable for:

Understanding upstream supply chain, from mine to export of any mineral or natural resource, not just gold.

Intended to be practical and flexible for various situations



An extract from Follow The Money

Guidance on Key Issues

- Untangling terminology around ASGM: formal, informal, illicit
- Understanding IFFs
- How to investigate upstream IFFs linked to ASGM
- Analysis and mapping
- Shaping informed response

Guidance on Methodology

- Desk-based research
- Hypotheses
- Stakeholder mapping
- Research questions
- Source protection
- Analysis & mapping



Analysis and Action

Research Questions

- How much gold is produced/bought? (estimate)
- How does the gold flow? (Where is gold coming from and going?)
- How much turnover and profit are actors generating?
- Why and how do people engage in the ASGM sector?
- What proportion of the value of the gold is retained in the local economy?

Guidance on Analysis

- Start with a basic flow: routes by which IFFs are generated & laundered.
- Assess to what degree actors are extracting value
- Estimate how much value is retained in local economies
- Compare actors' motivations with the directions of flows
- Assess validity of findings
- Assess implications of findings, especially for powerful people and vulnerable groups.

Guidance on Action

- What are the primary drivers of financial flows?
- What are the opportunities for addressing these?
- And barriers?
- Could any next steps put vulnerable people at risk?
- What other stakeholders or initiatives must be considered? How might they help or hinder your responses?
- What is the right timing for your intervention?

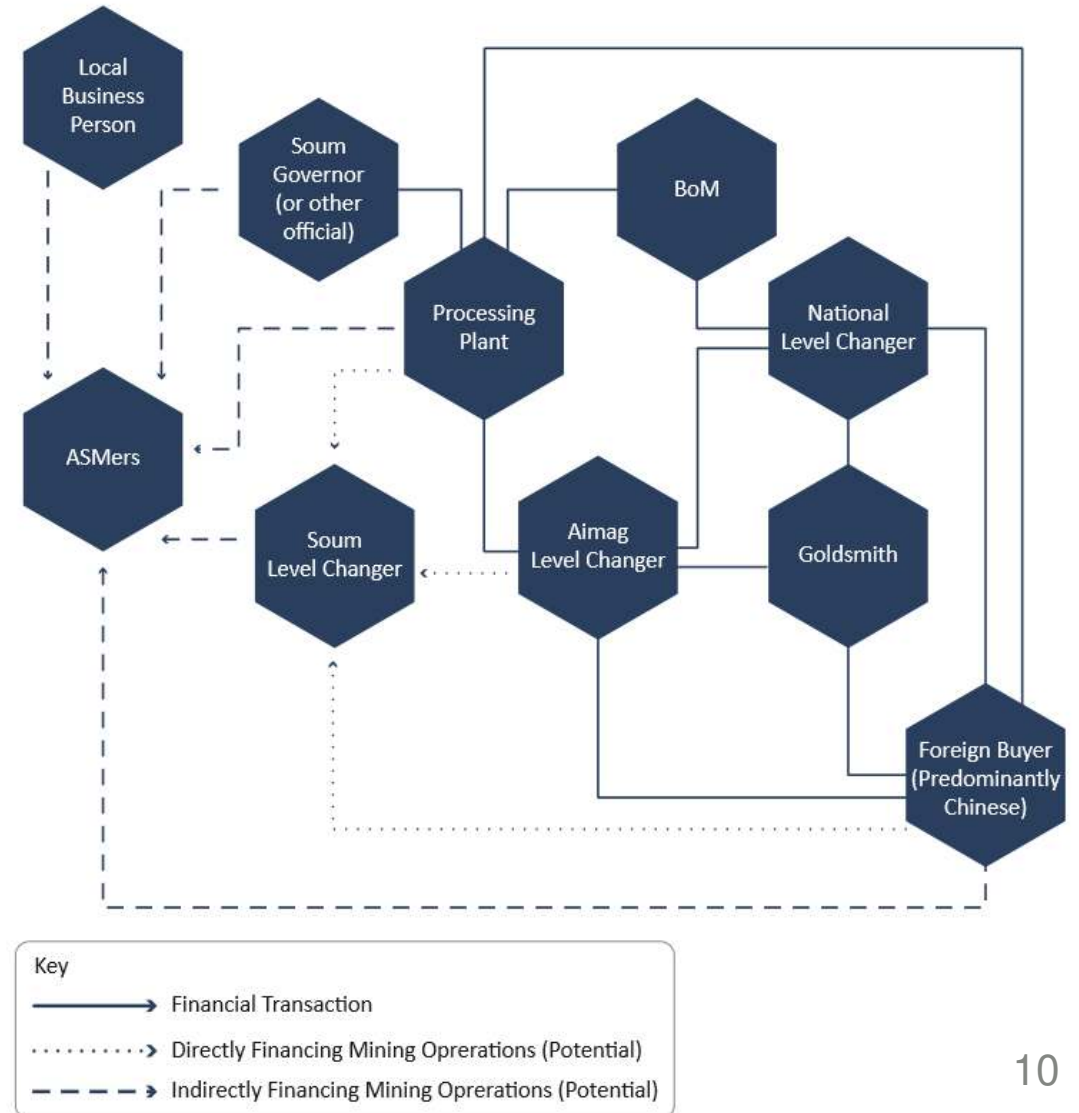


ASGM in Mongolia

Country Context

- Economy relies heavily on mining, esp. gold
- ASM has only emerged at large scale over past 15 years
- ASGM is taking place across the country (estimated 238 deposits), probably involving several 100,000 miners
- ASGM production estimates vary greatly (smuggling has reportedly been rife)
- Frequent changes to legal framework for mining sector may have contributed to corrupt practices
- Recently revised ASM regulation may contribute to greater stability going forward

Figure 6 Financial Flows and Stakeholder Mapping





IFFs in Mongolia's ASGM Sector

Lessons from the forthcoming GEF Gold case study (focus on mercury elimination)

- Poor coordination between national and local government and lack of manpower are major barriers to successful mining reforms and formalisation initiatives.
- Reliance on gold buyers as intermediaries and limited due diligence by the Bank of Mongolia as a major purchaser of ASM gold reinforces informal and illicit gold supply chains and illicit flows.
- Local ('Soum') governors play an important but and potentially contradictory role, which can jeopardize reform and formalisation efforts.
- The lack of formal, regulated processing plants (there are only three in the country) incentivises illegal processing operations which damage the environment and use less effective technology.
- Illegal trade networks and financial relationships with Chinese nationals are likely to undermine efforts to improve gold supply chains (despite the reduction of royalty on gold exports)



Key Lessons

- Understanding the flows of funds in ASGM is just as important as material flows to analyse and tackle corruption, crime and other undesirable behaviour
- Government policies may unwittingly encourage illicit or even illegal behaviours unless their interactions with financial flows are properly understood
- GIFF analysis can provide insights and entry points for links between ASGM and a wide range of undesirable practices, e.g. mercury use, organised crime and terrorist financing



Potential Opportunities for GIFF

Application

Widen the Lens within ASGM

- **Build a larger dataset** using GIFF to improve understanding of ASGM links with (national and international) organised crime, smuggling networks, bonded/child labour and violent extremism

Widen the Lens within Raw Materials

- **Other materials**, e.g. cobalt, coal, diamonds, coloured gems
- **Other issues**, e.g. illicit wildlife trafficking

Deepen the analysis

- **Take a regional view for a holistic interpretation**, e.g. look at cross border flows of money and materials, (e.g. West Africa, Central Africa, etc.)
- Carry out regional dialogues

Develop additional tools

- Forensic accounting tool
- Mapping regional flows
- Adapt toolkit into Train the Trainers package



Thank you for listening

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