



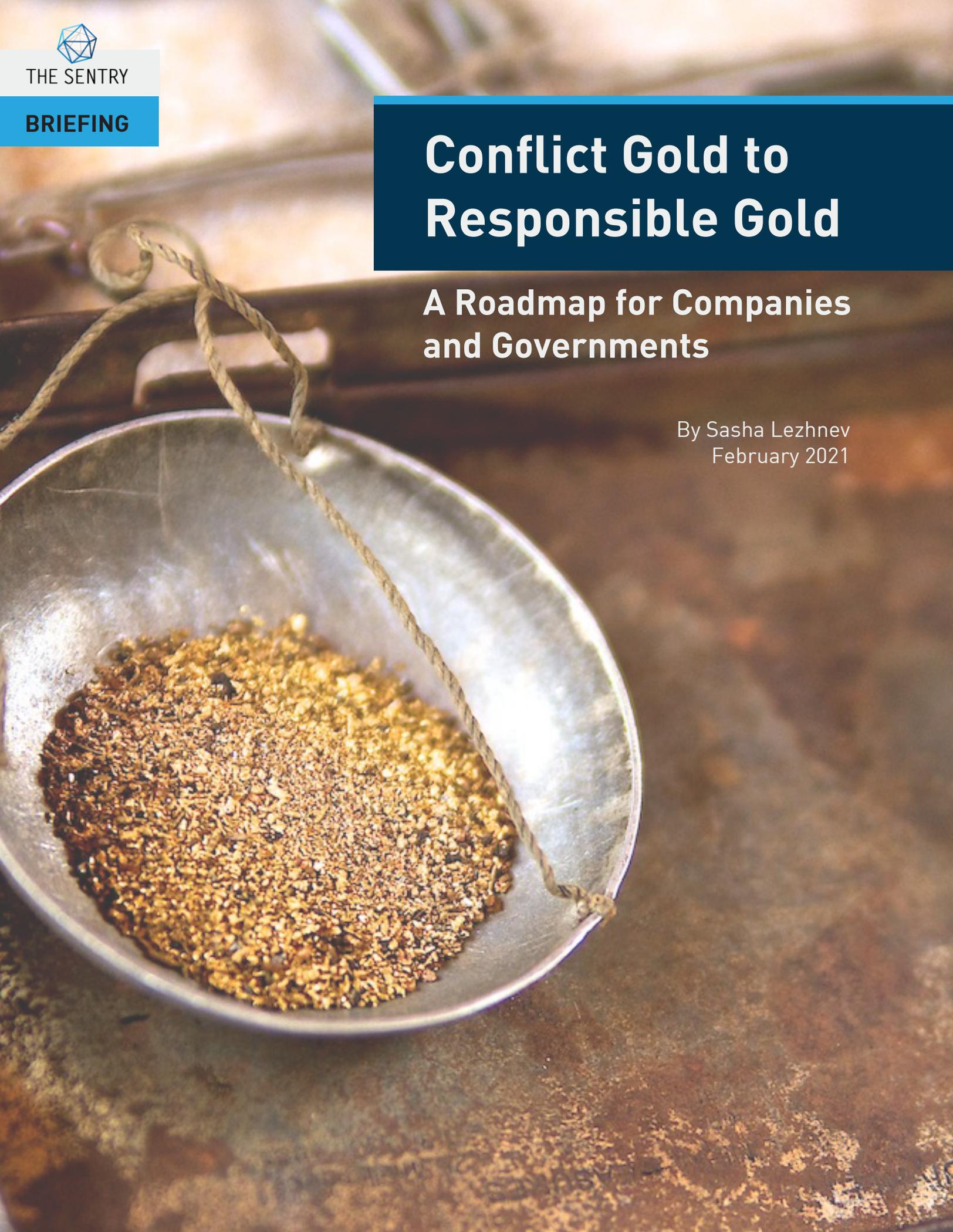
THE SENTRY

BRIEFING

Conflict Gold to Responsible Gold

A Roadmap for Companies and Governments

By Sasha Lezhnev
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The technology, jewelry, financial, and automotive sectors are increasingly at risk of purchasing gold via Dubai that benefits armed groups responsible for mass atrocities in multiple countries in East and Central Africa. Five main policy issues continue to incentivize the conflict gold trade and disincentivize the responsible artisanal trade, presenting key opportunities for action by governments, companies, and banks.

Executive Summary

Gold's meteoric rise in price has brought renewed attention to the problem of conflict gold—gold that funds armed groups and criminal networks. Over \$4 billion in conflict-affected or high-risk gold from Central and East Africa flows to international markets annually,^{1,2} including to the United States, India, the Middle East, Europe, and China.^{3,4,5} Electronics, jewelry, automotive, and financial services companies are at risk of purchasing conflict and high-risk gold from the Democratic Republic of Congo (DRC), the Central African Republic (CAR), Sudan, and South Sudan via Dubai, United Arab Emirates (UAE). Gold from these conflict-affected countries is primarily smuggled to neighboring countries—namely Uganda, Rwanda, Cameroon, Kenya, Chad, and Burundi—and then exported to Dubai before ending up in jewelry or gold bars around the world.^{6,7,8,9}

Meanwhile, a nascent trade in responsible, conflict-free artisanal gold is emerging from East and Central Africa, but it needs significant regional and international policy changes and industry engagement in order to grow. Hundreds of thousands of men and women work in artisanal and small-scale gold mining (ASM) in East and Central Africa, but they are frequently exploited by corrupt officials, criminal traders, armed units, and poor policies. COVID-19 has left artisanal mining communities in the region even more vulnerable to price and criminal exploitation.^{10,11}

International regulations, due diligence standards, and industry auditing programs established over the past decade to combat the conflict gold trade have significantly improved awareness of the problem. However, there are five main obstacles to a sustainable solution, presenting new opportunities for governments and industry to have an impact.

- **Lack of consequences.** Refiners and traders who deal in conflict gold have faced few, if any, financial or legal consequences for contributing to armed conflict or pillaging, despite United States, United Nations



(UN), and European Union (EU) sanctions regimes, industry auditing programs, and laws that address these issues.

- **Weak policies and enforcement in Dubai and other world gold centers.** Policies on gold trading and customs in the UAE, India, and other global gold centers are inconsistent and insufficiently enforced, which incentivizes smuggling and money laundering. The new London Bullion Market Association (LBMA) international bullion center initiative, which threatens to cut off gold centers from global supply chains if they do not enact key responsible gold reforms, provides useful leverage to try to change those policies.^{12, 13}
- **Imbalanced gold export taxes.** Gold export taxes among gold-producing states and neighboring countries in East and Central Africa are severely imbalanced, significantly incentivizing smuggling. For example, Uganda and Cameroon have substantially lower gold taxes than neighboring DRC and CAR, respectively, thus making it much more profitable to smuggle gold to those countries.
- **Policy disincentives.** Policies in the region hinder or completely preclude miners' ability to register legally, secure property rights, or have protection, creating major obstacles to developing the responsible artisanal mining sector. Government corruption exacerbates those challenges.
- **Lack of financing.** Financing for responsible, conflict-free mining in East and Central Africa is severely lacking, making mining cooperatives vulnerable to illicit actors who provide prefinancing.

Main recommendations

The trade in conflict gold is prolific and problematic, but companies, governments, and financial institutions can pursue the following five actions to have significant impact:

- **Establish greater consequences for trading in conflict gold.** The United States, the UN Security Council (UNSC), and the EU should investigate and, if appropriate, sanction refining and trading companies that deal in conflict gold. Jewelry and electronics companies should stop sourcing from refiners that have failed credible independent audits on conflict minerals. Such policies have helped clean up the trade in other conflict minerals.
- **Strengthen policies and enforcement in Dubai.** The UAE government should close the regulatory and enforcement loopholes that allow for trade in conflict and high-risk gold, in line with LBMA and Financial Action Task Force (FATF) recommendations.
- **Harmonize gold export taxes.** The US Department of State and the EU should work with regional governments—in Uganda, Rwanda, the DRC, CAR, and Cameroon, in particular—to harmonize gold taxes in order to reduce smuggling and facilitate growth in the conflict-free gold trade.
- **Remove disincentives for artisanal miners.** Donor governments should work with mining ministries in reforming policies to formalize artisanal mining, for instance, by reducing the red tape for miners to access property rights and by lowering miner registration costs. Governments in the region and gold refiners should adopt the CRAFT code,¹⁴ a standard for improving artisanal mining conditions.
- **Source from conflict-free artisanal mines.** Refiners that have passed credible international audits should increase sourcing from responsible artisanal gold projects in the region. Pilot projects to source responsible gold from the DRC to Western markets should be scaled up.



Conflict at the Source

Of the four main conflict minerals (gold, tin, tantalum, and tungsten),¹⁵ gold has been the most difficult to address, as it is easy to smuggle and to sell virtually anywhere. It is also a lifeline for corrupt ruling networks when other sources of revenue have dried up. In East and Central Africa, gold continues to fund armed conflict and human rights abuses in four main countries: Sudan, South Sudan, CAR, and the DRC.

On the ground, armed groups and army units profit from the conflict gold trade in three main ways: by controlling gold mines and forcing miners to work, by illegally taxing trading routes, and by raiding mines.¹⁶ In the first, most common scenario, militia or army commanders force artisanal miners to hand over a portion of the gold they produce, and they then sell the gold to traders or collaborate with them to sell or smuggle the gold onward.^{17, 18} The commanders, from both nonstate armed groups and national armies, then share their profits with political sponsors, corrupt government officials, and business partners, or they use them to purchase or barter for weapons, ammunition, supplies, or assets for themselves.^{19, 20, 21} In other cases, armed commanders run checkpoints and force traders to pay illegal taxes.²² For example, one study estimated that armed groups in CAR generated at least \$6.5 million annually from such roadblocks.²³ Armed groups also sporadically attack mines to raid them for gold stashes.²⁴ In gold mining areas controlled by armed groups, civilians face severe consequences, from sexual and gender-based violence to displacement to child soldier conscription and forced child labor.

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The Democratic Republic of Congo

In eastern DRC, where an estimated 3.1 to 7.6 million people have died as a result of armed conflict and where there are approximately 130 active armed groups,^{25, 26} gold is a major driver of conflict. An estimated 10 to 20 tons of gold, worth \$300 to \$600 million, is smuggled out of the DRC annually.²⁷ Conflict gold provides the largest source of revenue to armed actors in eastern DRC, including armed groups and many national military units that profit through illegal taxation, raiding of mines, and collaboration with smugglers.^{28, 29, 30} The UN Group of Experts detailed how one militia, the Nduma défense du Congo-Rénové (NDC-R), generated major revenue by selling gold to traders in Uganda and Burundi, purchased arms and ammunition from the DRC army, and engaged in extensive sexual violence against civilians, mostly women and children.^{31, 32} Army commanders have also been major profiteers in the conflict gold trade. General Gabriel Amisi, the late Colonel Delphin Kahimbi, and a number of other Congolese army officers have been named in UN Group of Experts reports as being involved in the illegal mining and smuggling of gold.^{33, 34}

Central African Republic

In CAR, gold mining has increased significantly in recent years as many miners have switched from diamonds,³⁵ and the latest estimates point to roughly 5.7 tons of gold production per year, worth approximately \$235 million.³⁶ Just as diamonds have long fueled armed conflict in CAR, gold has increasingly been trafficked and used by criminal groups to acquire cash and weapons. As of late 2014, the UN Panel of Experts on CAR estimated that around two tons of gold—worth over \$60 million—is trafficked each year.^{37, 38} With the significant increase in production, this number is likely much higher today. CAR's Bureau d'évaluation et de contrôle de diamant et d'or (BEDCOR) estimates that 90% of all gold production continues to be trafficked out of the country.³⁹ Armed groups control mines in western and eastern CAR. One of the ex-Séléka militias, Union pour la Centrafrique (UPC), controls the Nzako and Bakouma mining sites in the southeast



of the country.⁴⁰ In western CAR, anti-Balaka groups maintain a presence in mines around Boassangoa, Yaloké, Amada Gaza, Sosso-Nakombo, and elsewhere.⁴¹ In addition, the UN Panel of Experts on CAR has reported a number of cases of extrajudicial killings, forced labor, and sexual violence at anti-Balaka-controlled mines.⁴²

Sudan

Sudan is the largest gold producer of the four countries, generating approximately 90 tons per year.⁴³ However, a significant portion is connected to armed groups, as both nonstate armed groups and companies linked to security agencies have become involved in the artisanal and industrial gold sectors.^{44, 45} The UN estimated in 2016 that the Jebel Amir region of Darfur produced approximately \$422 million worth of gold annually and that armed groups generated an estimated \$54 million annually from the gold trade in that region.⁴⁶ More recently, at least one company controlled by security sector actors—Al-Junaid For Multi Activities—was granted a monopoly by the Central Bank of Sudan (CBOS) in 2018 to purchase and export gold from small producers,⁴⁷ making an unspecified “modest margin of profit” in the process.^{48, 49} Some of this profit has been used to equip and recruit young men in Sudan and across the Sahel to the Rapid Support Forces (RSF),⁵⁰ which has been implicated in the commission of widespread and systematic violations of international humanitarian and human rights law.⁵¹ Other armed groups such as the Sudan Liberation Army/Abdul Wahid (SLA/AW) in Darfur have found a “significant source of financing as a result of gold exploitation” and are now trading gold for weapons and ammunition, according to the UN.⁵² The discovery of new gold mines in Darfur in 2019 resulted in armed clashes between the Sudanese army and rebel groups.⁵³ Furthermore, the continued use of toxic substances at processing sites has led local communities to protest, resulting in incidents of excessive force and violence between these communities and the RSF soldiers and National Intelligence Security Service (NISS, now the General Intelligence Service, or GIS) agents guarding the facilities.^{54, 55}

The civilian-led government has recently taken steps to bring the mining sector under its control,^{56, 57, 58} but more could be done to promote the reforms’ long-term success. The government ended the controlling presence of the national security agency and Omar al-Bashir’s ruling party operatives in the Mining Ministry’s oversight and collection agencies, and it terminated the mining licenses of former regime insiders.⁵⁹ The Mining Ministry improved the collection of government dues from franchise and processing companies, which had often ignored their contractual obligations.⁶⁰ In the first half of 2020, the government also ended the monopoly of the central bank over gold exports and launched a bourse that offers prices aligned with international markets.⁶¹ Intended to create a disincentive for gold smuggling and improve the country’s foreign currency earnings, these measures fell short of realizing their objectives,⁶² as the government did little to end the preferential treatment of its own companies, carried over from Bashir’s period.⁶³ Moreover, gold production and trading companies affiliated with the army, the GIS, and the RSF continue their activities in these sectors while shielding their revenues from government oversight, thus adding to the severity of the economic crisis and threatening to cripple Sudan’s path to democracy.^{64, 65}

South Sudan

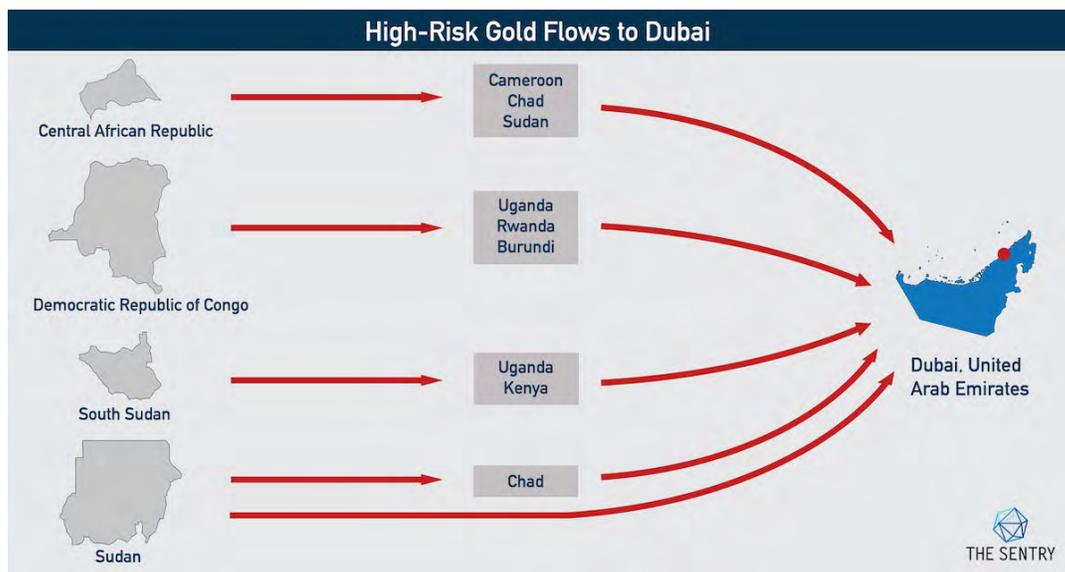
South Sudan has also been home to armed groups profiting from the artisanal gold trade since the start of the civil war in 2013.^{66, 67, 68} Gold from the state of Kapoeta has been smuggled out of the country by networks of government officials and international mining interests, leading to the increased militarization of the gold trade in the state.⁶⁹ Gold traders in South Sudan estimate the annual monetary value of the gold trade at \$24 million, but this is likely underestimated due to smuggling.⁷⁰ The UN found that the Sudan People’s Liberation Movement/Army in Opposition (SPLM-IO) has engaged in gold mining around Kajo Kaji.⁷¹ The SPLM-IO and another rebel group, the National Salvation Front (NAS), both fund their war efforts in part from gold.⁷² Around Lobonok, Wondoruba, and the Luri River, both opposition groups mined gold



and taxed civilians working in gold mines.⁷³ These groups have collectively been involved in multiple human rights violations, from attacks against civilians to the recruitment of child soldiers to sexual violence.^{74, 75, 76}

Neighboring Countries as Smuggling Hubs

From the producing states of CAR, the DRC, South Sudan, and Sudan, conflict gold is mainly trafficked to neighboring countries: from CAR to Cameroon,⁷⁷ Chad, and Sudan;⁷⁸ from the DRC to Uganda, Rwanda, or Burundi;⁷⁹ from South Sudan to Uganda and Kenya;^{80, 81} and from Sudan to Chad (although most Sudanese gold is exported directly to the UAE).⁸² These neighboring countries often charge much lower taxes on gold than the producing states, providing major incentives for smuggling.⁸³



Uganda

Uganda is a consolidation point for gold smuggled from the DRC and South Sudan. Two main refineries have been established in Uganda over the past four years and have collectively exported over 34 tons of gold since 2017, according to records reviewed by The Sentry.⁸⁴ Uganda's export of approximately \$1.2 billion in gold (27.8 tons) in 2019 represents a vast increase in its official gold exports over the past five years, as the country only exported \$443,000 in gold in 2014.⁸⁵ Uganda is only estimated to produce a maximum of three tons of gold per year, so it can be inferred that most of the gold it exports is imported.^{86, 87}

A handful of exporters and smugglers bring the gold to Uganda from the major gold-trading cities in eastern DRC, and the UN reported that smugglers have bribed officials to move it across the border.^{88, 89} Uganda also remains a hub for gold smuggled from South Sudan, according to the UN, with members of both NAS and the SPLM/A-IO confirming having sold gold from South Sudan in Uganda.⁹⁰ Because South Sudan does not produce certificates of origin for its gold, South Sudanese gold being traded in Uganda is likely either misrepresented as being of Ugandan origin or traded without any certificates of origin.⁹¹ The Ministry of Mining of South Sudan has stated that any South Sudanese certificates of origin were "inevitably fraudulent."⁹²



Rwanda

Rwanda is the destination for a significant amount of smuggled gold from eastern DRC and has become a major gold exporter since 2017.⁹³ In fact, gold is now one of Rwanda's largest exports, despite the country's low annual production capacity (20-30 kg).^{94, 95, 96} According to the Rwanda National Bank, in 2019-2020, Rwandan gold exports increased 755% over the previous year.⁹⁷ And in 2019, the UAE imported \$472 million in gold from Rwanda, according to UN trade data, up from \$72 million in 2015, \$8 million in 2014, and none in years prior to that.^{98, 99} The UN Group of Experts concluded in 2018 that much of the gold traded in Rwanda and Uganda was smuggled from the DRC and that Rwandan customs and border controls are insufficient.¹⁰⁰

One of the businesspersons that has been involved in the Rwandan gold trade in recent years is Belgian gold trader Alain Goetz. Goetz has reportedly been involved in exporting gold from Rwanda since 2017,¹⁰¹ and, according to the UN, in 2018 the Rwandan gold trade was mainly controlled by Goetz.¹⁰² Africa Confidential reports that Goetz entered into a partnership with the Rwandan government to build a gold refinery in Rwanda.¹⁰³ In 2019, Aldango Ltd refinery launched with a reported refining capacity of six tons of gold per month.¹⁰⁴ Corporate records and multiple media outlets indicate that Aldango is a joint venture between two firms, Aldabra Ltd and Hilly Metals Investment Company.^{105, 106, 107, 108} Documents reviewed by The Sentry suggest that Aldabra Ltd is effectively controlled by Goetz, and Goetz acknowledged to the UN in 2020 that he is an owner of Aldabra Ltd.^{109, 110} In response to a list of specific questions posed by The Sentry with respect to these activities, Goetz did not answer, opting instead to make vague accusations against The Sentry, assert a range of claims about his companies' activities, and insist he needed information about The Sentry's sources in order to respond.¹¹¹

Cameroon

Cameroon remains a preferred destination for smuggled gold from CAR, as it can be sold there at a higher price than in Bangui.^{112, 113} Often, gold traffickers use the roads through southern Chad, which can be safer than those through CAR, to get into Cameroon.¹¹⁴ When the roads are too unsafe to travel, smugglers use air transportation to move the gold from Bangui, where local authorities lack the controls to search for and stop gold from leaving the country.¹¹⁵ Some smugglers in CAR use diplomatic passports to facilitate their transport and pay bribes to field agents to avoid scrutiny.¹¹⁶ In January 2020, Robert Baker, CEO of the Bekora Miners refinery in Cameroon, said that most of the gold processed in his refinery was not declared to customs in order to avoid paying taxes.^{117, 118}

Burundi

Burundi is another hub for smuggled Congolese gold. The UN Group of Experts has reported for over 20 years that gold from eastern DRC has been smuggled to Burundi.¹¹⁹ However, the rise of Uganda and Rwanda as regional gold hubs, combined with instability in Burundi in recent years, may have lessened the country's ability to attract as much smuggled gold. In February 2020, gold traders in the DRC reported that some gold smuggled from the DRC to Burundi was then smuggled to Rwanda for refining there.¹²⁰

Chad

Chad is one of the destinations for gold from Darfur, Sudan,¹²¹ and is one of the smuggling routes for gold from areas of eastern CAR controlled by ex-Séléka armed groups, according to multiple reports.^{122, 123} Gold is smuggled to Chad by



both road and air,¹²⁴ and gold has reportedly been traded for stolen vehicles that were then smuggled back into Sudan.¹²⁵ Furthermore, Chadian traders have reportedly introduced mercury into some artisanal gold mines in CAR.¹²⁶

Supply Chains to Dubai and Then Onward

From East and Central Africa, gold is overwhelmingly exported to Dubai, UAE; an estimated 95% of gold from the 10 countries highlighted in this report is imported by the UAE.¹²⁷ Dubai's limited regulations and lax enforcement attract traders of artisanal and small-scale gold,¹²⁸ and The Sentry has identified four main money laundering risk factors for gold in the UAE: large cash transactions for gold continue to take place, customs checks and controls for hand-carried gold are weak and do not require proof of payment, oversight of the Dubai gold souk is inadequate, and numerous large refiners are not subject to independent audits.¹²⁹

From Dubai, gold is sold onward to North America, Europe, India, China, and the Middle East,¹³⁰ presenting major risks for multinational electronics, automotive, and jewelry companies and for banks and other financial institutions.¹³¹

Switzerland remains the world's largest hub for gold refining, processing an estimated 70% of all unrefined gold each year.¹³² In 2018, Switzerland was the third-biggest destination for gold from the UAE, importing approximately 58 tons, or \$2.4 billion, according to UN trade statistics.¹³³ After being refined, almost half of Swiss gold is sold to jewelers, approximately one third is sold to banks, and the rest is sold to various industries.¹³⁴ Due to voluntary standards that refineries apply to ensure that the gold refined is conflict free, the Swiss government admitted in a report that they cannot exclude the possibility of conflict gold being used by its country's refineries.^{135, 136}

In China, the world's largest annual gold consumer since 2013,¹³⁷ work began in 2015 on establishing due diligence requirements for gold refiners, which still need to be finalized and fully implemented. Since then, the China Chamber of Commerce of Metals, Minerals & Chemicals Importers & Exporters (CCCME), in cooperation with the Organisation for Economic Co-operation and Development (OECD), has established an auditing requirement for all Chinese gold refiners based on OECD due diligence guidance.¹³⁸ When implemented, this program will reportedly have independent third-party auditors,^{139, 140} but it will be important to ensure the quality of the independent audits.

India, the world's second-largest gold consumer,¹⁴¹ an important jewelry manufacturing center, and a top-four destination for gold from Dubai,¹⁴² continues to have significant policy issues on gold and money laundering that need to be addressed. An in-depth study on India and illicit gold by IMPACT highlighted that "there is a significant amount of evidence demonstrating that trade routes from the Great Lakes region of Africa go to India, often via Dubai," and that the UAE is India's largest source of smuggled refined gold.¹⁴³ India has also seen a massive increase in imports of gold doré—from 23 tons in 2012 to over 212 tons by 2019—mainly from high-risk countries.^{144, 145} Several policy loopholes contribute to this increase, including negligible due diligence on gold imports by Indian Customs officials and the fact that most Indian refiners "remain largely unaware of, and indifferent to, both the vulnerabilities in their supply chains and the need to carry out supply chain due diligence."¹⁴⁶ The Indian government should require its refiners to undergo conflict gold audits. It should also increase education among refiners and banks in India about the need to conduct due diligence.



Opportunities for Impact

“There is a river of dirty gold from Central Africa. We need to divert some of the water toward the legal trade, and to do that we need both sticks and incentives. Almost all incentives are toward the illegal trade now.”

– Regional gold expert interviewed for this report

The conflict gold trade will never be fully eliminated, but governments and the private sector, including banks, can have a major impact in reducing it by robustly implementing due diligence frameworks, creating consequences for illicit actors, closing loopholes in the UAE, incentivizing the responsible artisanal gold trade, and helping vulnerable mining communities in East and Central Africa.

Creating consequences for illicit actors

First, there must be far greater financial and legal consequences for those trading in illicit gold. At present, illicit traders and refiners can get around international due diligence guidance and audits with impunity and continue to access international markets. Throughout the region, there has been little accountability for gold traders and refiners sourcing from conflict areas or for companies owned by the security sector agencies, thus leaving much of the gold production tainted by links to violence and institutional corruption. Greater financial and legal consequences for sourcing from conflict and high-risk areas would shake up the industry and help create incentives to increase the responsible, conflict-free gold trade.

In the public sector, the US Department of the Treasury, the UNSC, and the EU should sanction refiners, traders, and the networks of companies they control for purchasing gold from conflict zones. US, UN, and EU sanctions regimes all allow for designations based on findings of support to persons, including armed groups, involved in activities that threaten the peace, security, or stability of the DRC and CAR through the illicit trade in natural resources—for example, by purchasing gold sourced from areas controlled by armed groups.^{147, 148, 149, 150, 151} To have a strong impact on the rest of the supply chain, sanctions should target the most influential actors in that chain, particularly the refiners and traders who travel and have bank accounts abroad. The failure of companies to implement UNSC and OECD due diligence guidelines for conflict and high-risk gold should factor into the analysis of how sanctions are applied. The last international sanctions on conflict gold traders from East and Central Africa were over a decade ago, in 2007.¹⁵²

Legal consequences can act as deterrents for others when strong and appropriate sentences are applied and guilty parties serve time in prison. Prosecutors in jurisdictions where conflict gold is traded, or where conflict gold traders or refiners are based, should investigate traders and refiners for possible money laundering, pillage, customs, and anti-corruption violations. If the investigations conclude that an indictment is warranted, those responsible for violating the law should be prosecuted to the fullest extent.

Banks and other financial institutions have a key role to play in establishing consequences for conflict gold traders, too, as large volumes of gold are traded by banks. Financial institutions must be better trained to identify anti-money laundering (AML) red flags and to exercise international due diligence on high-risk gold. As one international jeweler told The Sentry, “Banks haven’t stepped up as much as they should have. They rely on their own KYC [know your customer] standards. Banks are operating in these countries. And yet the big banks are important players in gold trading markets.”¹⁵³



For example, some multinational banks have policies to trade gold from LBMA-certified refineries only, but they frequently do not carry out due diligence to verify the origins of that gold to the extent that electronics or jewelry companies do.^{154, 155}

Banks must develop or hire expertise in gold refining and internationally recognized due diligence for artisanally mined gold. Most large banks mainly know the gold trade through financial deals related to industrial gold mines, but to conduct due diligence on high-risk artisanally mined gold, banks need to develop expertise in OECD guidance, red flags from the FATF and The Sentry,¹⁵⁶ and gold refining more broadly. If banks asked OECD due diligence questions before processing a gold trade, that would have an impact on illicit trade. As one former banker told The Sentry, “Some banks, e.g. in India, treat the gold as a currency, like dollars. They don't get involved enough in the due diligence of the gold being traded. They thus evaluate you as a company, not the gold.”¹⁵⁷ This practice needs to be amended to focus more on the gold itself.

Other private sector companies have a role to play in creating consequences, as well. Jewelry, electronics, automotive, and other companies that consume gold must utilize conflict-free refiner audits in their supply chain decisions. The past decade has seen a revolution in the transparency of minerals supply chains. In 2010, no gold refiners went through independent conflict-free audits, but today, 63% of refiners globally have passed them.^{158, 159} However, audits are only influential in changing dirty industry practices insofar as the end users utilize them in their decisions about who to source from. To date, only two companies—Apple and Intel—have sourced from 100% audited refiners and smelters, and many companies are stuck in the 70% range.¹⁶⁰ As more companies cut from their supply chains any refiners that fail or refuse to undergo audits, the industry incentive to shift from conflict to conflict free grows.

Closing loopholes in the UAE

Governments and private sector actors need to encourage the UAE government to address policy loopholes that continue to facilitate the illicit trade. As one international gold expert told The Sentry, “Dubai doesn't like questioning the efficacy of their standards.”¹⁶¹ However, because the UAE is an important nexus in the gold trade and is seeking international legitimacy for its gold refining and trading practices, governments and companies should appeal to that drive when engaging the UAE government on policy.

Some progress has been made, showing the potential impact of international pressure, but much more needs to be done to close the loopholes for the illicit gold trade. For example, the Dubai Multi Commodities Centre (DMCC) addressed several outstanding issues in its due diligence protocols following international scandals over the past decade. However, the implementation of DMCC audits has been an issue, with some refineries only being delisted after significant international pressure.¹⁶² For its part, the DMCC notes that all company registrations are rigorously assessed through a robust compliance process and that its auditing program follows the OECD five-step framework.¹⁶³ The UAE government should close these policy loopholes that allow conflict gold to enter the country by enacting reasonable policy reforms.¹⁶⁴ The UAE announced in December 2020 that it is developing a new UAE gold good delivery standard—to be called the Emirates Good Delivery—though the details have not yet been made public.¹⁶⁵

Incentivizing the legal trade in East and Central Africa

Hundreds of thousands of men and women work in artisanal gold mining in the region at present—an estimated 250,000 in the DRC alone.¹⁶⁶ However, miners are very frequently exploited or evicted by governments, armed groups, corrupt officials, and companies,¹⁶⁷ and most miners are forced to work illegally because of poor government policies that do not prioritize miner rights,^{168, 169} often deliberately so in order to maintain illicit flows to corrupt officials. Formalizing artisanal



mining by changing tax incentives, reforming laws, and providing sustainable markets to artisanal miners is an important part of the solution.

Disincentivizing smuggling by aligning regional gold taxes

If the gross disparities in gold export taxes between countries in the region are not addressed, the financial incentive for smuggling will remain and illicit traders will continue to emerge. There is some movement in the direction of fixing the imbalances. High-level DRC government officials have told The Sentry that they now recognize the issue and are working to lower taxes, coordinating with provincial governments.¹⁷⁰ Similarly, in CAR there is reportedly more will to change, as there is not a long history of predatory practices in the gold sector.¹⁷¹ However, Uganda, Rwanda, Cameroon, Kenya, Chad, and Burundi make millions in illicit funds from the smuggled gold trade, and adjusting their gold taxes would force them to give up corrupt gold funding.

Diplomats in the region, perhaps together with public-private alliances, should work with governments in East and Central Africa to harmonize gold taxes. “Fixing the tax issue is just incredibly important. Without it, you really can’t move on the issue,” one regional mining expert told The Sentry.¹⁷² Each of the countries discussed here should begin unilaterally adjusting its gold tax rates to be in line with the region, but gold tax harmonization should also be done at a regional level. For instance, harmonizing the gold export taxes between CAR and Cameroon and between the DRC and Rwanda and Uganda should be a priority. The International Conference on the Great Lakes Region (ICGLR) has incorporated this issue into its minerals certification agenda,¹⁷³ but it needs international actors with political weight in the region to engage robustly in support of the tax negotiations. US ambassadors in the region (or special envoys, if appointed), the EU, and the African Union could play key roles in backing the ICGLR process, as could organizations such as the Public-Private Alliance for Responsible Minerals Trade (PPA).

Diplomatic leverage for regional gold reforms to change incentives for smuggling can come from a surprising but effective source: international AML evaluations (which include gold) by the FATF and regional bodies. If a country scores badly, its credit rating is put at risk. If diplomats use this leverage when engaging countries in the region on gold, they will increase the chances of success in addressing this complex issue.

The key question is how to convince and work with these governments on reform, given the amount of money in the illicit gold market. National interests in the region are normally focused on counterterrorism and democracy, and thus regional issues such as gold smuggling are frequently secondary for diplomats. But there is an interesting idea that could be applied here to provide leverage: FATF mutual evaluations of a country’s AML and countering the financing of terrorism (AML/CFT) laws and policy frameworks and their implementation. The FATF and the FATF-style regional bodies—the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and the Groupe d’action contre le blanchiment d’argent en Afrique Centrale (GABAC)—should incorporate implementation of AML policies and procedures on conflict and high-risk gold into their mutual assessments of countries in the region. This practice would have an impact on country credit ratings and thus on the calculations of regional leaders. If combined with strong regional diplomacy, it could influence regional leaders to align gold taxes and plug a major loophole allowing the trade in high-risk gold to flourish. In its 2020 evaluation of the UAE’s AML/CFT regime, for example, the FATF assessed and recommended several steps to fix shortcomings in the gold and precious metals sector.¹⁷⁴



Increasing the market for responsible artisanal gold

Artisanal miners and traders also need viable, legal markets in which to sell responsibly mined gold to noncriminal actors. The lack of access to finance for traders and other upstream actors represents one key barrier in the development of a responsible, conflict-free gold trade. Banks and micro-finance institutions rarely get involved in artisanal mining in the region, perceiving it as too risky. However, the PPA has researched this area in depth and is currently piloting a project with a bank in the DRC to increase access to finance,¹⁷⁵ the Responsible Artisanal Gold Solutions Forum (RAGS) is restarting,¹⁷⁶ and the US Agency for International Development (USAID) is piloting a new \$1 million fund for responsible gold innovation in the DRC.¹⁷⁷ The fund may be a good starting point for industry to engage with artisanal mining in the region. Refiners and end-user companies should provide consistent inventory financing to artisanal projects, either as part of a larger group or underwritten by a development bank.¹⁷⁸

Importantly, all of this work must be scaled up if it is to make a difference. Refiners and end-user companies alike should actively engage with and adopt the CRAFT code to boost their artisanal sourcing in a responsible manner. The CRAFT code, a new system to help artisanal minerals, producers, and downstream companies document and validate their eligibility to sell and source artisanal minerals in accordance with OECD due diligence guidance, can be a useful starting point for governments and regional buyers.¹⁷⁹

Internationally accredited refiners—LBMA refineries, for instance—should play a role here by sourcing greater amounts of responsibly mined, conflict-free artisanal gold. This could be done by partnering with responsible mining projects, such as IMPACT’s Just Gold,¹⁸⁰ in the gold-producing countries of East and Central Africa. Direct partnerships—such as closed-end pipelines from mine to market or the “Journey of Gold” that involved LBMA refiner Asahi, Google, Signet Jewelers, Richline, USAID, and Fair Congo—can help create markets outside of the illicit trade.¹⁸¹ End-user companies, banks, and donor governments should increase such partnerships on responsible gold. In several countries in the region, governments or refiners consolidate gold from both legitimate and illegitimate sources, so there is a need to separate them out and affect the markets for each. For example, the Sudanese government under the regime of deposed President Bashir purchased, consolidated, and exported a significant percentage of the gold produced, making it almost impossible to distinguish which gold had been conflict affected.¹⁸²

Providing incentives for artisanal miners

Responsible mining partnerships will only be able to scale up and affect the entire sector if policy reforms on artisanal mining occur. Policies and resources must be shifted to align with what artisanal miners actually need. Miner priorities include security, access to equipment, gender equality, finance (and prefinance), training, and property rights (titles and tenure of mining concessions).¹⁸³ In South Sudan, illegal mining serves as an important source of income for many artisanal miners—not only for criminals and armed groups—as the process to obtain a mining permit is prohibitively expensive and complex.^{184, 185} While many artisanal miners do not see their work as illegal, the government disenfranchises these miners by criminalizing their activities and then evicting them. Regional governments must issue artisanal mining licenses for several years, allow artisanal miners to secure clear and enforced property rights at mines, and protect them from evictions or license revocations once gold is found. In some countries, this includes granting licenses to artisanal miners at low cost in designated artisanal mining zones; in others, it includes assessing and validating mines as conflict free. Governments in gold-producing countries also need to lower the costs of officially registering miners. In CAR and the DRC this is a significant issue, but lessons can be learned from more streamlined processes in other countries.¹⁸⁶ Gold-rich provinces should open legal buying offices, and export procedures at border points should be enhanced.¹⁸⁷



To move miners from the exploited, illegal category—in which they face harassment, extortion, predatory loan practices, and armed actors—to the legal, responsible trade that can free them from exploitation and boost their incomes and communities, laws need to change. Regional governments should start by formally adopting the CRAFT code so that artisanal mining cooperatives and traders can begin implementing it and, more generally, so that the region and industry can get on the same page regarding artisanal mining and due diligence standards. Donors and private sector companies should also systematically identify and work to address gender issues, including by identifying the barriers women face in mining formalization and accessing decent work and finance; creating incentives to promote gender equality in business; integrating gender-responsive due diligence; and incorporating gender analysis in the reform of mining and minerals policies, laws, and regulations.¹⁸⁸

Governments also need to revoke the licenses of illicit traders who hover around mines and exploit them. One regional mining expert, who had experience implementing a conflict-free gold project, told the Sentry, “If you can get the [illicit] middlemen out, you remove a big part of the problem to responsible mining. The petit negociants around the mine were a big problem, as they were extorting miners and forcing them to sell gold to illicit traders.”¹⁸⁹ However, removing illicit middlemen is not an easy task given their vested interest in the status quo, and so engagement with governments is critically important to ensure follow-through on this issue.

Donor agencies, including multilateral donors, can contribute by helping to provide funding for training, equipment loans, and other responsible, conflict-free gold projects in the region. Donor agencies, such as the World Bank and others, should support geological mapping for artisanal mining. End-user industries should encourage legal exporters to better engage at the origin of the supply chain to mitigate risks and increase production. This type of engagement could take different forms, including providing geological experts to artisanal mining areas. Implementers of conflict-free projects also note that donor governments need to coordinate better in the region, sharing the lessons learned from their projects. Donors and companies should also have gender-sensitive programming when engaging in the artisanal mining sector in East and Central Africa. Women make up 25-50% of the artisanal mining workforce in the region, yet their issues are frequently ignored.¹⁹⁰

As of December 2019, only 106 gold mines of the approximately 1,500 in the DRC were officially certified as conflict free,¹⁹¹ and only a small percentage were designated artisanal mining zones.¹⁹² In Sudan, the Ministry of Mining’s oversight arm, the Sudanese Mineral Resource Company, has been working with gold mining companies to maximize the benefits to local communities and has allocated a portion of its budget to implement development projects in coordination with local communities in order to align with a mandatory social responsibility provision in mining regulations.¹⁹³ Much more needs to be done to recognize local communities’ entitlement to gold tailings left behind by traditional miners, which are currently trucked away by private and public treatment companies without fair compensation for the local communities.¹⁹⁴ Governments in the region should also stringently control the use of mercury and cyanide to reduce the lasting large-scale contamination of the environment currently occurring in transitional mining areas. Other parts of the world have seen successes in formalizing artisanal mines and improving labor and environmental standards—the Oro Puno project in Peru, for instance—and lessons learned from such projects should be applied in East and Central Africa.¹⁹⁵

Conclusion

Conflict gold mined in four conflict-affected countries in East and Central Africa is fueling horrific crimes against local populations and is filtering through the gold supply chain, creating major risk for multinational gold traders, refiners, banks, and technology and auto companies. Gold that benefits armed groups and corrupt criminal networks is smuggled



from CAR, the DRC, South Sudan, and Sudan into neighboring countries, mixed with other gold and refined, and then sold onward to Dubai, Switzerland, India, and Western markets. Meanwhile, a conflict-free gold trade is burgeoning and requires greater support.

International and industry awareness about the prevalence of conflict gold is improving, and there are tools available to address the issue, including established industry standards, laws against pillage and other crimes, money laundering typologies, sanctions regimes, and certification systems. The question now is whether governments and industry will utilize these tools to establish consequences for illicit actors, reform the supply chain, and incentivize a responsible trade on the ground.

To stem the flow of conflict gold and to boost the responsible, conflict-free gold trade, electronics, jewelry, and automotive companies and banks should use the FATF and The Sentry red flags to conduct enhanced due diligence. Governments and regulatory bodies must ensure consequences for those trading in conflict gold. Prosecutors must investigate, prosecute, and sentence those knowingly involved in the trade. Additionally, donor and regional governments should work urgently to harmonize gold export taxes and other incentives for artisanal mining among countries in the region so that there is much less incentive to smuggle, and industry must engage in responsible artisanal sourcing while helping vulnerable artisanal mining communities. Without significantly more attention and action from companies and governments on conflict gold, the trade will continue to fuel armed conflict, human rights violations, and environmental crimes.

Recommendations

Establish greater consequences for trading in conflict gold. The United States, the UNSC, and the EU should investigate and, if appropriate, sanction gold refining and trading companies that deal in conflict gold, along with their beneficial owners. Jewelry and electronics companies should stop sourcing from refiners that have failed credible independent audits on conflict minerals.

Harmonize gold export taxes. The US State Department and the EU should work with the ICGLR and the governments of the DRC, Rwanda, and Uganda to harmonize gold taxes in order to reduce smuggling and facilitate growth in the conflict-free gold trade.

Adopt the CRAFT code and source from conflict-free artisanal mines. Governments in the region and global refiners should formally adopt the CRAFT code, an open-source standard for improving conditions in artisanal mining in accordance with international due diligence standards. Furthermore, gold refiners accredited by widely accepted international standards should increasingly source conflict-free artisanally mined gold from East and Central Africa, which could be done by establishing responsible artisanal gold sourcing partnerships in East and Central Africa. The new USAID Responsible Gold Innovation Fund could be a useful starting point for industry to engage.

Help formalize the responsible, conflict-free gold trade and support vulnerable artisanal miners. The US State Department, the EU, and other governments should increase their engagement with the mining ministries of the DRC, South Sudan, CAR, and Sudan to support policy changes on artisanal mining to help formalize the sector. In particular, they should strongly encourage mining ministries to designate more viable mines as artisanal mining zones; to lower gold taxes; and to formalize the artisanal sector by allowing cooperatives to apply for licenses, lowering miner registration costs, and helping optimize production.



Source from audited refiners. Electronics, jewelry, and automotive companies should steadily increase the percentage of refiners that have passed credible third-party independent audits on conflict minerals in their supply chains. Companies should be sourcing only from refiners and smelters that have passed these audits by 2025, with benchmark targets such as 90% of refiners audited by 2022.

Convene industry. The US Treasury Department should convene key gold refiners and traders, industry associations, and banks to highlight the need for better implementation of the red flags in the FATF typology report on gold.

Strengthen policies and enforcement in Dubai. The UAE Central Bank should ban all cash and barter transactions for gold, and it should require all gold refiners in the UAE to undergo an independent third-party audit—in line with OECD standards—that includes due diligence on high-risk and conflict-affected gold. UAE Customs should require that everyone importing gold declare who they plan to sell the gold to and provide evidence of how they paid for the gold and to whom the payments were made. The UAE government should also address priority issues from the latest FATF evaluation relevant to the conflict gold trade.¹⁹⁶



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and inaccurate allegations have been levelled against me and the companies I worked with in the past years. ... We are committed to operating in an ethical and transparent manner and, consistent with that commitment, upon receipt of your enquiry on AGR, we immediately communicated with you so that we could find out more about the allegations as well as the details of the evidence that you have to support them, and so that we could properly provide appropriate response. However, you have refused to provide any further information or evidence to support the allegations. As a result, we have not given any genuine opportunity to properly address the allegations presented." Alain Goetz email to The Sentry, January 11, 2020.

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