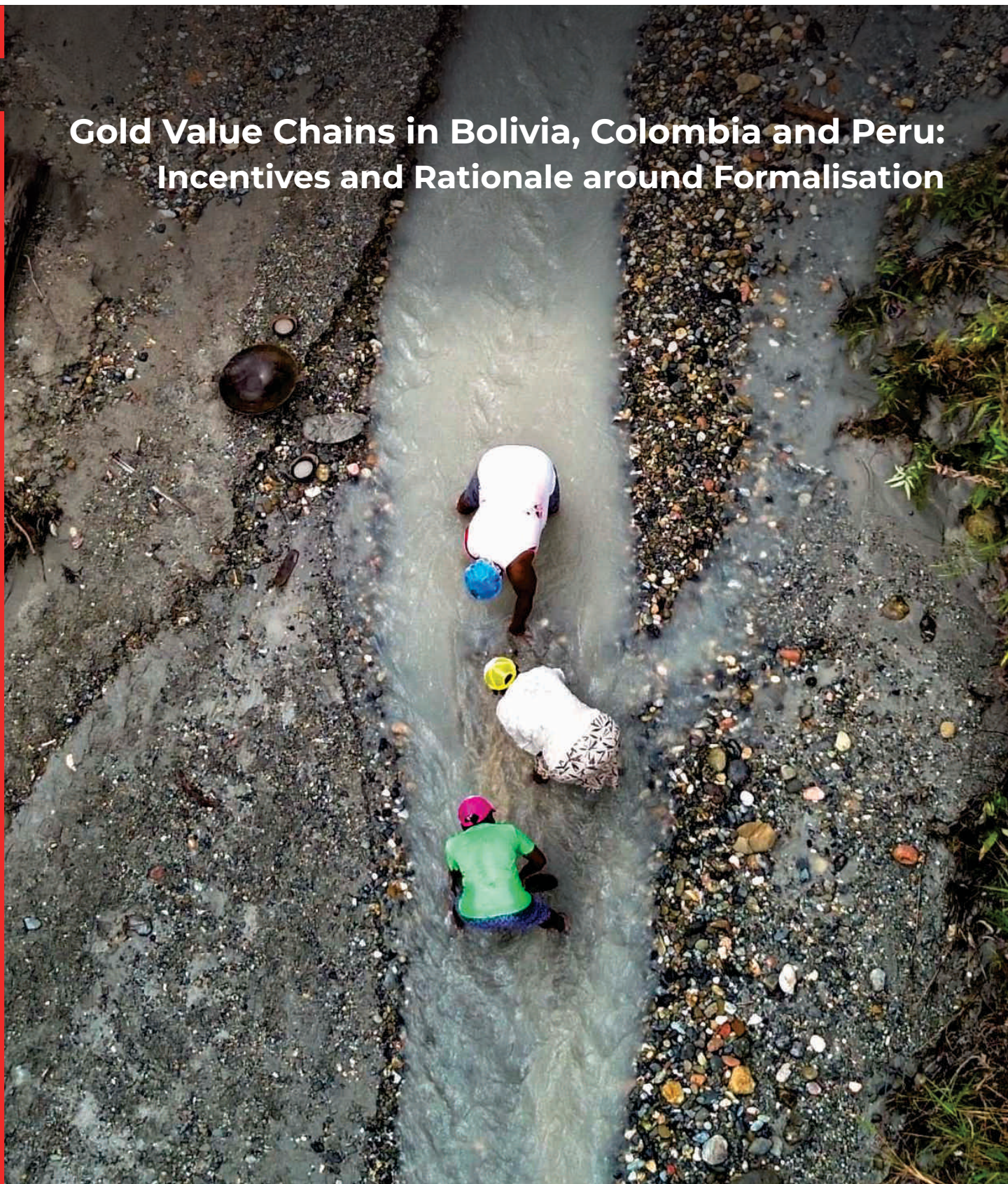


# Gold Value Chains in Bolivia, Colombia and Peru: Incentives and Rationale around Formalisation





## Credits

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# Introduction

Swiss Better Gold<sup>1</sup> (SBG) works with the artisanal and small-scale mining sector (ASM) in Peru since 2013 and in Bolivia and Colombia since 2017. The main purpose of SBG is to create responsible gold supply chains from the mine to the market and to contribute to better living conditions of the miners and their communities. As a common ground, the ASM sector is very important and of high socio-economic relevance in these countries. In each country, hundreds of thousands of people are directly and indirectly involved in ASM. During the past years, the importance of the sector has continuously grown, mainly due to the increasing gold price. Informality and illegality are widespread across the supply chain, but the specific problems in each of the three countries are very different.

A lot of research and publications about the issue of formalisation of the mining sector already exists, but hardly ever do this focus on the supply chain as a whole, which includes the aspects of formalisation of the gold commercialisation. The University of Zurich/Switzerland developed a methodology to analyse the national supply chain (from the mine to the export point) and to identify the main barriers for advancing formalisation. This methodology was first successfully applied in Bolivia, and then by partner universities from Peru and Colombia in these two countries. As a result, three country studies are now available<sup>2</sup>.

SBG is working with governmental partners on policy recommendations. We believe that the recommendations of these studies will generate and motivate a further discussion and in the long run, and hopefully contribute to improvements for the sector in each of the countries.

In addition, SBG has an increasing demand for more and new responsible supply chains to Switzerland. To satisfy this demand, more ASM producers need to achieve formality, as being formal is a basic criterion for a responsible supply chain. Thus, a more formalised ASM sector will create the potential for future Swiss Better Gold supply chains.

Thomas Hentschel,  
Global Programme Manager Swiss Better Gold Initiative,  
Medellin, November 2024

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<sup>1</sup> <https://www.ororesponsable.org> and <https://www.swissbettergoldassociation.ch/>

<sup>2</sup> <https://ororesponsable.org/publicaciones-paises/>





The background of the page features a photograph of a mining landscape. In the foreground, there is a calm body of water reflecting the sky and the surrounding environment. In the middle ground, a steep, rocky hillside is visible, with some small structures and vehicles parked near its base. The background shows more rugged terrain under a hazy, overcast sky.

# Bolivia

## Understanding the Persistence of Informality in Bolivia's Gold Value Chain: Analysis of Incentives and Constraints

Executive summary of the study “Understanding the Persistence of Informality in Bolivia's Gold Value Chain”

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In many resource-rich low and middle-income countries, artisanal and small-scale gold mining (ASGM) constitutes an important source of livelihood and contributes to economic development. However, the sector generally operates informally and without oversight. Informal ASGM is often associated with land conflicts, occupational health and safety issues, human rights violations and environmental degradation. Despite the promotion of formalisation, certification and responsible sourcing programmes, ASGM remains an activity that takes place largely outside the regulatory control of governments. This poses significant challenges for the internal and external trade in ASM gold due to the lack of traceability, the loss of significant tax revenues for host states, high risks of money laundering and the funding of criminal groups.

To analyse and explain the persistence of informality in ASGM settings we develop a conceptual framework to capture the incentive structures of domestic value chain actors' preferences with regard to formal or informal business operations. The framework provides a generic 'formalisation matrix' that can be applied across different countries and ASGM contexts (and possibly to other informal value chains). This analytical model allows us to, firstly, situate the different domestic ASGM value chain actors at the upstream, midstream and downstream level (producers, intermediaries, exporters) along a 'formality continuum' for each formalisation requirement as stipulated by the applicable legal framework and the competent state authorities. Secondly, the model systematically captures the (perceived) costs, benefits and risks that inform actors' choices to operate under different formalisation modes, that is, fully or partially formalised, informal, or even illegal. In this way, advantages and disadvantages of informality and the respective incentive structures of domestic value chain actors

can be discerned to inform future policy design to promote formalisation.

We apply our conceptual framework to the Bolivian gold sector, analysing the domestic ASGM value chain. The analysis is structured into three parts, corresponding to the three key actor groups along the domestic gold value chain in Bolivia (cooperative producers, intermediaries and private exporters). The findings indicate that incentive structures of value chain actors in Bolivia's ASGM sector are not in favour of gradual formalisation and are often distorted, entrenching informality and non-compliance.

The analysis results in a set of recommendations on how the Swiss Better Gold Initiative (SBGI) can contribute to advancing formalisation and supply chain due diligence efforts in the country. The main idea is to shift the focus away from promoting direct export of responsibly produced gold toward prioritising policy dialogue and reform. We recommend three main areas for policy reform: first, legal recognition of artisanal producers and midstream actors; second, setting targeted incentives to alter value chain actors' preferences in favour of formalisation; and third, strengthening state-delivery of technical and educational support to mining cooperatives and communities.

The analysis rests on a qualitative case study of the Bolivian gold trading sector. It draws on academic literature on ASGM and the cooperative gold mining sector in Bolivia, documents and data provided by the Bolivian regulatory and other relevant institutions, and data that was collected through a series of semi-structured interviews with cooperative gold miners, Bolivian gold export traders, independent private sector consultants, and regulatory authorities, conducted during in depth field research carried out in June 2021.



# Analysis of informality in the Bolivian Gold Value Chain

## 1. Upstream: Gold Producers (Gold Mining Cooperatives)

The analysis of the costs and benefits of different modes of formalisation in Bolivia's cooperative gold mining sector indicates that the majority of cooperatives generally lacks incentives to become gradually more formalised. Overall, operating formally does not hold any tangible benefits for most cooperatives but involves both one-time and recurring costs as well as an increased administrative burden. Hence, most cooperatives embrace informality to avoid costs. At the same time, for most cooperatives, operating informally does not have any notable disadvantages. In general, the capacity to sustain current levels of production and to market gold remains relatively unaffected by the degree of a cooperative's formalisation.

The situation is reinforced by a lack of administrative and organisational capacity, poor access to finance, and a culture of informality in business relations among the majority of gold mining cooperatives. Lack of education and absence of specific training for (new generations of) cooperative miners further contributes to the situation that technologically advanced, cleaner and more efficient production methods as well as new marketing opportunities for gold (such as direct exports) are either perceived as unattainable or not considered altogether by most cooperatives. Since there is no viable perspective for changing production arrangements and improved marketing opportunities, the potential benefits associated with becoming more formalised are limited and often outweighed by additional costs. In some areas formalisation

is further hampered by bureaucratic sclerosis and distrust towards state authorities. Thus, for many cooperatives reducing interactions with state authorities to a minimum becomes the preferred *modus operandi*.

At the same time, state authorities generally refrain from directly interfering with the work of gold mining cooperatives as illustrated by an almost complete lack of compliance enforcement across nearly all categories of formalisation. Regular inspections, environmental controls or tax audits as well as an effective sanctions framework generally do not exist while in many areas a tacit toleration of legal norm violations has become the norm. This reinforces the perception among cooperatives (and other market actors) that legal regulations and respective formalisation requirements can be flouted without consequence.

It is these two general components, the lack of tangible benefits of becoming formalised due to an almost complete absence of support services paired with a weak and in some areas non-existing enforcement and sanctions framework that cement the status quo of informality in the Bolivian cooperative gold mining sector. Complemented by a dysfunctional taxation system and an ill-designed regulatory framework for the internal commercialisation of gold, the current political and regulatory situation creates a distorted incentive structure for gold mining cooperatives that abets informality instead of facilitating a gradual process of formalisation.



## 2. Midstream: Gold Collectors and Intermediary Traders

Under the current legal framework basically all midstream-level gold traders operate in violation of the existing legal framework since gold sales are prohibited for anyone not directly connected to a mining contract. Thus, intermediaries are organised informally. However, despite their informal status, gold collectors and intermediary traders assume a crucial function in Bolivia's gold sector. They organise a significant part of the gold supplies for downstream export traders and thus serve as important logistics providers and retail agents. For the upstream gold producers, they constitute an indispensable source of liquidity that allows them to cover regular expenses and to sustain production in remote areas. In fact, without the informal services provided by midstream-level gold traders, a large part of Bolivia's gold sector would not be functional.

Currently, there is no possibility for gold collectors and intermediary traders to leave irregularity behind and to become formalised. At the same time, these actors do not face a high risk of criminal prosecution and are (at least tacitly) tolerated by the state. Thus, despite their nominally illegal activities, gold collectors and intermediary traders generally operate openly and unimpeded.

The pervasive informality at the midstream level of Bolivia's gold sector makes traceability and supply chain due diligence largely impossible. Moreover, it prevents formalised export traders at downstream level from complying with the existing legal and regulatory framework. In fact, it frequently

incentivises exporters to misrepresent the origin of gold shipments.

Against this backdrop, it is strongly recommended that any attempt to formalise Bolivia's cooperative gold mining sector and to improve supply chain due diligence should include a legal recognition and formalisation of midstream-level actors. Given the right set of incentives, particularly regarding taxation and access to finance, midstream-level actors could benefit from formalisation while contributing to enhanced traceability.

Ultimately, legal recognition and functional integration of gold collectors and intermediary traders into the formal economy will put an end to a situation where an entire economic subsector openly operates in violation of the law, undermining the credibility of legal and regulatory institutions.





### 3. Downstream: Bolivian Private Gold Exporters

As the formalised link at the end of a mostly informal value chain, Bolivia's gold export is situated at the administrative bottleneck where all regulation takes effect, all documentation is supposed to be controlled, and where royalties and other official levies are collected. By habitually accepting gold of unknown provenance by individual sellers, export traders also contribute to the persistence of informality in Bolivia's gold value chain.

Given the widespread informality at up- and mid-stream levels, export traders face serious challenges in complying with the formal requirements for gold purchases, particularly in documenting the origin of gold shipments. Many cooperatives remain steeped in informality and fail to provide the necessary paperwork while preferring to market their gold through individual sellers to avoid taxation. At the same time, many cooperatives are unable to regularly travel to La Paz to sell their gold directly to the export traders and must rely on informal intermediaries that operate illegally.

As a result, export traders must accept that a significant share of their direct suppliers remain undocumented and the origin of gold unknown. To operate profitably, exporters have to guarantee a continuous inflow of gold to keep up a certain frequency of export consignments (rotación). The same dynamic is at play for their choice of international customers and export markets. While the prices that exporters receive are certainly a key factor, the conditions of payment, especially the speed of the payment, are

often equally important. Since most exporters depend on timely payments from their international clients to finance new gold purchases, ensuring fast and regular turnovers is crucial.

Quick payments combined with low due diligence requirements have made Dubai and India preferred export destinations for Bolivian exporters. Moreover, in the past, controls by commercial banks on the gold-trade related financial flows emitted and received by exporters have been lax. Due to the weak enforcement of anti-money laundering and terrorist financing provisions, gold exporters have faced almost no risk in commercialising gold of unknown and potentially illegal provenance.

It follows that the current regulatory framework does not correspond well with the reality of the Bolivian gold market. In practice, several regulatory exemptions, procedural 'workarounds', enforcement gaps and legal 'grey zones' have been established to allow for the smooth commercialisation of gold despite widespread informality and illegality at upstream and midstream level. This lenient regulatory practice rife with legal contradictions does not incentivise export traders to comply with legal requirements for gold purchases. Currently, there are no incentives, positive or negative, for commercial gold exporters to comply with due diligence provisions and responsible sourcing standards.

## Formalisation Matrix for Bolivian Gold Value Chain Actors

1. Upstream Cooperative Gold Producers					2. Midstream Gold Collectors and Intermediary Traders					3. Downstream Private Gold Exporters				
Formaliza- tion require- ments	Formality continuum and formalization modes				Formaliza- tion require- ments	Formality continuum and formalization modes				Formaliza- tion require- ments	Formality continuum and formalization modes			
	Formal	Informal	Could be formalized	Illegal		Formal	Informal	Could be formalized	Illegal		Formal	Informal	Could be formalized	Illegal
	SBG compliant	Fully formalized	Formalization in progress	Prohibited		SBG compliant	Fully formalized	Formalization in progress	Prohibited		SBG compliant	Fully formalized	Formalization in progress	Prohibited
1.1 Regis- tered legal entity					2.1 Regis- tered legal entity					3.1 Regis- tered legal entity				
1.2 Mining title (CAM)					2.2 Opera- ting permi- ssion					3.2 Gold purchase				
1.3 Opera- ting license					2.3 Gold purchase					3.3 Access to finance				
1.4 Environ- mental license					2.4 Access to finance					3.4 Taxes and duties				
1.5 Access to finance					2.5 Taxes and duties					3.5 Gold sales/ex- ports				
1.6 Taxes and duties					2.6 Gold sales									
1.7 Gold sales														

Source: authors





# Recommendations

For years, the political situation in Bolivia's gold mining sector has been characterised by a political reform gridlock and a lack of progress in the areas of value chain formalisation and enforcing existing regulations. As a consequence, Bolivia's cooperative gold mining sector has remained steeped in informality, with low levels of administrative and managerial capacity, and continues to employ outdated, inefficient and harmful production methods.

Based on the analysis of the cost and benefits of formalisation at the upstream, midstream, and downstream level of the Bolivian domestic gold market, three main areas of recommendations emerge:

<p><b>1</b></p> <p>Formalisation of artisanal producers and mid-stream actors</p>	<ul style="list-style-type: none"> <li>• Legally define and recognise artisanal miners, small-scale gold collectors and intermediaries and grant all three actor groups a legal right to formally sell gold on the domestic market.</li> <li>• Adapt formalisation requirements to the administrative and compliance capacity of each actor type.</li> <li>• Compensate lack of enforcement capacity by the state by a strong incentive framework that rewards formality and penalises informality and non-compliance.</li> </ul>
<p><b>2</b></p> <p>Altering actors' incentive structures in favour of formalisation</p>	<ul style="list-style-type: none"> <li>• Reduce costs for formalisation-related administrative requests.</li> <li>• Harmonise royalty rates and contributions to mining federations and simplify the tax framework by applying taxes at the end of the value chain.</li> <li>• Proactively create incentive structures for cooperatives and export traders to formalise trade operations and comply with due diligence standards through the introduction of targeted economic benefits and other advantages.</li> </ul>
<p><b>3</b></p> <p>Strengthen state delivery of technical support to mining cooperatives</p>	<ul style="list-style-type: none"> <li>• Establish regional educational centres in mining areas, specifically for younger generations of miners to train and educate them about modern production methods, environmental and health hazards, business administration and marketing strategies.</li> <li>• Improve miners' formal access to financial resources by setting up a (state-backed) special purpose fund, possibly in cooperation with the private banking sector, to provide low-interest or interest-free loans for mining cooperatives that want to invest in more efficient and cleaner production methods.</li> <li>• Provide technical support for cooperatives that seek to adopt cleaner and more efficient production methods as well as to obtain environmental licenses.</li> </ul>









# Colombia

## Does informality pay? Incentives and Rationale around Formalisation in the Gold Value Chain in Colombia

Executive Summary of the study: “Barriers to Formalisation in the Gold Production and Trading Chain in Colombia”

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## Abbreviations and acronyms

AML	: Anti-Money Laundering
ANM	: Agencia Nacional de Minería (National Mining Agency)
ARE	: Special Reserve Area
ARM	: Alliance for Responsible Mining
CCD	: Certificate of Completion of Declarations
CEJS	: Centre for Social Justice Studies
CFT	: Countering the Financing of Terrorism
CMA	: Authorised Mining Trader
DIAN	: Dirección de Impuestos y Aduanas Nacionales (National Tax and Customs Authority)
DGFT	: Dirección General de Comercio Exterior (General Department of Foreign Trade)
UAE	: United Arab Emirates
EHS	: Environmental, Health and Safety
EMA	: Environmental Mining Operator
EMA	: Authorised Mine Operator
FARC	: Fuerzas Armadas Revolucionarias de Colombia (Revolutionary Armed Forces of Colombia)
EPRM	: European Partnership for Responsible Minerals
GDIAM	: Grupo de Diálogo sobre Minería en Colombia (Colombian Dialogue Group on Mining)
GST	: Goods and Services Tax
KYC	: Know Your Customer
LBMA	: London Bullion Market Association
ASM	: Artisanal and Small-scale Mining
MME	: Ministry of Mines and Energy
OECD	: Organisation for Economic Cooperation and Development
OEA	: Organisation of American States
PMP	: Environmental Management Plan
PTI	: Work and Investment Plan (PTI)
PTO	: Mining Work Plan
RUCOM	: Single Registry of Mineral Traders
SARLAFT	: Risk Management System for Money Laundering and Terrorism Financing
SBG	: Swiss Better Gold
SEC	: U.S. Securities and Exchange Commission
SENA	: Servicio Nacional de Aprendizaje (National Apprenticeship Service)
SF	: Formalisation Subcontract
SFC	: Swiss Federal Council
USD	: U.S. dollar
UNODC	: United Nations Office on Drugs and Crime
VUCE	: Single Window for Foreign Trade



Despite being a key sector of the national economy and a vital source of local livelihoods, Colombian gold mining presents a complex landscape characterised by widespread informality. This not only brings significant environmental and health risks, but also fuels issues such as armed conflict and organised crime.

However, informality in the sector extends beyond simple non-compliance with legal requirements. Historical practices, economic pressures, and limited access to legal mechanisms and resources are deeply embedded throughout the various stages of the gold production and trading chain, continuously complicating efforts to formalise the sector.

This paper aims to explore the underlying factors that have perpetuated informality across the different stages of Colombia's gold supply chain. Additionally, it seeks to enhance understanding of the informal practices within the gold production and trading process, while offering recommendations to improve access to formalisation for the various actors involved.

Gold mining in Colombia is marked by a diverse range of actors: from barequeros (gold panners, subsistence miners) to small-scale miners, medium-sized companies, and large-scale legal and illegal operations. In the trading process, participants include local, national, and international traders, some of whom may not adhere to legal requirements. Additionally, support activities such as transportation and security services are often affected by the same informality and illegality that permeates various stages of the supply chain.

Moreover, the increasing interest of illegal armed groups and criminal organisations in gold mining has grown significantly, driven by factors such as the rising price of gold, the lower risks compared to other illicit activities,

and the opportunities for laundering assets through gold. As a result, mining formalisation policies play a crucial role in broader efforts to combat money laundering and terrorism financing, enhance the traceability of gold, reduce the socio-environmental impact of mining, and ensure the collection of royalties for mining regions and tax revenues for the nation.

However, efforts by both state and non-state entities to formalise the various activities within the gold supply and trading chain have seen limited success. Through a detailed analysis of the conditions and practices of miners, traders, and other stakeholders, this study seeks to deepen the understanding of the underlying causes of

- Identify the informal activities occurring at each stage of the gold supply chain.
- Clarify the barriers that obstruct the formalisation of these activities.
- Provide recommendations to enhance the conditions for formalisation at each stage of the supply chain.

The study begins with an exhaustive literature review to provide a comprehensive overview of Colombia's gold supply chain and the manifestations of informality at each stage. This is supplemented by a series of semi-structured interviews with representatives from each identified supply chain segment, aimed at gaining deeper insights into the experiences and perspectives of the involved actors. Additionally, the study draws on the analytical framework used to examine informality in Bolivia's gold value chain, developed by the Institute for Development and Cooperation at ETH Zurich for the Swiss Better Gold Initiative.

# Analysis of Informality in the Colombian Gold Supply and Trading Chain





## 1. Gold Producers

Formalisation efforts in Colombia's gold supply and trading chain have largely concentrated on mining producers. This study has identified five key barriers to formalising the production stage:

<b>Producer capacity</b>	Low administrative and organisational capacity to operate formally. Little or no access to technical and administrative assistance during the formalisation process.
<b>Institutional capacity</b>	There is a lack of coordination between the various authorities involved in the formalisation process, as well as an absence of a tailored approach that would consider the specific needs of different regions and populations. Additionally, authorities often lack reliable and up-to-date information, and there are insufficient available areas for allocation during formalisation efforts.
<b>Regulatory barriers</b>	Conflicts arise with other types of mining, especially when artisanal and small-scale mining takes place in titled areas. Frequent changes in legislation and the lack of regulations for certain legal categories further complicate the process. Additionally, there are conflicts between environmental and mining laws.
<b>Financial inclusion</b>	Miners in the process of formalisation, or those who could potentially formalise, face significant challenges in financial inclusion, such as difficulties with banking services and obtaining credits.
<b>On-the-ground conditions</b>	The persistence of armed conflict, the presence of illegal actors, and the remote location of extractive areas hinder access. Furthermore, there is limited presence of mining and environmental authorities, as well as formal traders, in many mining regions.



## 1.1 Formalisation Matrix for Mining Producers

Key activities and requirements for formalisation	Spectrum of formalisation					Influence factors	
	Legal		Gray area of legality	Illegal	Legality		
	Cumplies with SBG	Fully formalised	Informal		Formality		
1. RUCOM						Regulatory	x
						Market	
						Subjective	
2. Additional registers (municipality, RUT, CCD, ARE declaration, subcontract)						Regulatory	x
						Market	
						Subjective	x
3. PTI/PTO						Regulatory	x
						Market	
						Subjective	x
4. Environmental License/Environmental Management Plan						Regulatory	x
						Market	
						Subjective	x
5. Certificate of Origin/Declaration of Production						Regulatory	x
						Market	x
						Subjective	x
6. Bank account						Regulatory	
						Market	x
						Subjective	x

















## 2. Gold Traders

The categorisation of actors involved in trading begins with distinguishing between those who are unregistered and those with legal authorisation to operate. Among the latter, it is important to identify those who fully comply with legal requirements and those who, despite being registered as traders, do not meet all regulations and engage in informal or illegal practices. These practices may stem from entrenched informal dynamics within the supply chain or from the criminal interests of certain actors. In some cases, a dialectical relationship exists between legal, informal, and illegal activities within the gold supply, trading, and export chain. The primary barriers to formalising the trading stage are as follows:

<b>Production informality</b>	The widespread informality in production has a significant impact on driving informal trading practices.
<b>Geographical, logistical, and financial limitations</b>	Barriers, such as limited access, cultural constraints, and financial difficulties, hinder mining producers from completing registration procedures and reaching formal trading centres that ensure proper document traceability.
<b>Legal requirements</b>	The complexity and frequency of required procedures, along with inconsistencies between current regulations and on-the-ground mining realities, present significant challenges.
<b>Market dynamics</b>	Competition with informal and illegal markets, potential distrust from producers toward formal traders, and delays in the processes necessary to legally trade gold undermine formalisation efforts.
<b>Pressure from illegal armed groups</b>	The presence of criminal organisations often drives trading through informal or illegal channels and imposes additional costs on miners and formalised traders.



## 2.1 Formalisation Matrix for Local and National Traders

Key activities and requirements for formalisation	Spectrum of formalisation					Influence factors	
	Legal		Gray area of legality	Illegal	Legality		
	Cumplies with SBG	Fully formalised	Informal		Formality		
1. RUCOM						Regulatory	x
						Market	
						Subjective	
2. Additional registrations (RUT, Certificate of Good Standing, Balance Sheet and Income Statement, Certificate of Registration in the Business Registry, etc.)						Regulatory	x
						Market	
						Subjective	x
3. Certificate of Origin/ Declaration of Production						Regulatory	x
						Market	
						Subjective	x
4. Commercial invoices or equivalent documents for minerals traded by the company						Regulatory	x
						Market	
						Subjective	x
5. Bank account						Regulatory	x
						Market	x
						Subjective	x
						Market	x
						Subjective	x















### 3. Gold Exporters

We have identified both legal, registered exporters and unregistered exporters involved in gold smuggling. However, it is important to note that by the time gold is exported, it possesses the necessary documentation for legal export. Therefore, this report focuses on the barriers to formalisation faced by registered exporters. These barriers include the following:

Financial inclusion	The risk assessments of SARLAFT systems, along with the limited access to banking services for mining producers, complicate traceability and hinder the formal export of gold.
Regulatory	The instability of tax regulations, particularly concerning the deductibility of royalties for tax payments, combined with increasing international traceability and due diligence requirements.
Market	Competition from the informal and illegal markets, which do not require documentation.
Logistics	Delays in the procedures necessary for legal gold exports, along with a lack of knowledge and expertise among the officials responsible for overseeing these processes.

Informality and illegality within the gold production and trading chain have significant economic, social, and environmental consequences. These issues not only fuel illegal economies but also perpetuate practices that infringe on labour rights and harm the environment. As global demand for gold increases due to geopolitical and economic pressures, these problems may worsen. Therefore, it is crucial to understand how various actors interact with authorities and regulatory frameworks to identify opportunities for improvement.

### 3.1 Formalisation Matrix for Exporters

Key activities and requirements for formalisation	Spectrum of formalisation					Influence factors	
	Legal		Gray area of legality	Illegal	Legality		
	Cumplies with SBG	Fully formalised	Informal		Formality		
1. RUCOM				N/A	N/A	Regulatory	x
						Market	
						Subjective	
2. Additional registrations (RUT, Certificate of Good Standing, Balance Sheet and Income Statement, Certificate of Registration in the Business Registry, etc.)				N/A		Regulatory	x
						Market	
						Subjective	x
3. Certificate of Origin/ Declaration of Production				N/A	N/A	Regulatory	x
						Market	
						Subjective	x
4. Commercial invoices or equivalent documents for minerals traded by the company				N/A	N/A	Regulatory	x
						Market	
						Subjective	x
5. Bank account				N/A	N/A	Regulatory	x
						Market	x
						Subjective	x
6. Records of royalty payments				N/A	N/A	Regulatory	x
						Market	x
						Subjective	x





## Recommendations

Mining formalisation processes in Colombia encounter numerous challenges that impede their effective implementation. Key challenges include complex regulatory aspects, such as the presence of multiple legal frameworks that complicate compliance, inconsistencies between mining and environmental regulations, difficulties with registration procedures and ensuring documentary traceability, and the lack of differentiated requirements based on the scale of operations. Additionally, mining producers face logistical and cultural barriers to accessing banking services and harbour distrust toward government entities due to the criminalisation of their activities and the presence of illegal armed groups in their regions. To address these challenges, this paper offers four main recommendations:

RECOMENDATIONS

1

Establish a unified yet differentiated formalisation policy.

2

Integrate environmental and mining regulations.

3

Decentralise mining governance.

4

Enhance access to banking services.

1

Unified yet differentiated formalisation policy

The presence of multiple legal and regulatory frameworks creates confusion and impedes the formalisation process. A single, coherent legal framework would enable:

- Simplified procedures.
- Reduced bureaucracy.
- Streamlined processes.
- Minimisation of regulatory contradictions.

Furthermore, this unified policy should be differentiated to address the specific realities of various mining regions and the distinct characteristics of different mining operations.



## 2

### Integration of environmental and mining legal frameworks

A comprehensive formalisation policy requires stronger collaboration between mining and environmental entities. This can be achieved by:

- Integrating mining and environmental procedures.
- Establishing a single entity that combines mining and environmental responsibilities for formalisation.
- Enhancing coordination between authorities to improve enforcement coherence and effectiveness.
- Ensure open access to formalisation processes.

## 3

### Decentralisation of mining governance

The current centralised management as well as bureaucracy hinder access to the resources and support necessary for meeting legal and technical requirements. Decentralising governance could address this by:

- Establishing regional offices staffed with trained personnel in mining areas.
- Providing more timely and effective support to miners.
- Bringing state entities closer to mining, communities, fostering stronger relationships of trust.

## 4

### Financial inclusion

Access to banking services is a major barrier for miners in the formalisation process. To address this challenge and successfully implement the financial inclusion law in the mining sector, it is essential to:

- Develop policies that ensure and facilitate access to banking services for miners.
- Educate banking institutions to better understand the unique challenges and needs of the mining sector.
- Tailor SARLAFT requirements according to the scale of mining operations and trading.
- Coordinate between relevant institutions to provide miners with the tools and resources needed to fully integrate into the formal market and enhance their economic sustainability.







# Peru

## Scale of ASM Operations and Formalisation Incentives

Executive Summary of the study: “Scale of ASM Operations and Formalisation Incentives”

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Peruvian Artisanal and Small-scale Gold Mining (ASGM) plays a crucial role in the national economic development, generating approximately 100,000 direct jobs and nearly 500,000 indirect jobs across an area of roughly 25 million hectares, in an environment characterised by high levels of informality. It is therefore key to gauge efforts aimed at maximising positive externalities for the local economy, which involves identifying strategies that promote the formalisation of the stakeholders within the value chain.

Formalisation entails a series of steps and procedures, including registering artisanal miners, documenting their operations, providing necessary authorisations, identifying changes required for approvals, establishing monitoring mechanisms, and ensuring compliance with business regulations specific to the mining sector.

Despite continuous deadline extensions to support the comprehensive mining formalisation registry (REINFO) and complete the legally required procedures, the Special Formalisation Process initiated in 2012 has not achieved the expected results. As of the date of this report, only one-fifth of miners are in compliance, while the majority-four out of five-remain in a "suspended" status. Additionally, challenges such as limited access to mining concession titles, exploitation contracts, and land-use agreements contribute to the complexity of the formalisation process.

This report references the study "Analysis to Understand the Persistence of Informality in the Gold Value Chain in Bolivia: Incentives and Constraints" by the NADEL, Centre for Development and Cooperation at ETH Zurich<sup>3</sup>, and Swiss Better Gold, adapting its analytical framework to the Peruvian context. The framework consists of three components that help explain the persistence of informality within Peru's ASM sector.



The first component of the framework conceptually outlines the notion of formality and how it is applied in practice, considering the various forms of formality and informality that artisanal and small-scale gold mining and trading operations may adopt.



The second component focuses on the national ASM value chain, examining the characteristics that distinguish formal, informal, and illegal operations within the gold value chain.



The third component connects the first two by analysing the factors that influence actors in the value chain to choose either formal or informal operations.

<sup>3</sup> Swiss Federal Institute of Technology Zurich



For this report, the ASM value chain is divided into three key stages:

- (i) Exploration and production;
- (ii) Intermediation and processing;
- (iii) Final trading and export.

The trading chain involves various stakeholders, including artisanal miners, small-scale miners, intermediaries, facturadores (intermediaries who provide fraudulent purchase receipts), processing plants (both formal and informal), buying and selling houses, jewellers, exporters, among others.

According to the Ministry of Energy and Mines, all participants in the gold trading process, such as jewellers or buying and selling houses that purchase gold from artisanal and small-scale mining, must be registered in the Special Registry of Gold Traders and Processors (RECPO<sup>4</sup>). This registry serves as the primary official resource for identifying formal stakeholders or those undergoing formalisation, dedicated to the purchase, sale, or refining of gold.

One of the major obstacles to consolidating the formalisation process in the country is illegal mining. Several national and international criminal networks facilitate the smuggling of illegally sourced gold out of the country, making it a pervasive issue.

Gold value chains are highly vulnerable to the introduction of illegally sourced gold at various stages of production and trading. The methods used to achieve this vary widely and are continually evolving to avoid detection, with the most common schemes involving counterfeit transactions through legitimate companies and shell corporations.

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<sup>4</sup> Special Registry of Gold Merchants and Processors



# Analysis of the Gold ASM Value Chain in Peru

## 1. Exploration and Production Stage

The first link in Peru's artisanal and small-scale mining (ASM) value chain involves the exploration and production phases. According to the Ministry of Energy and Mines, ASM gold mining accounts for approximately 20% of the country's national production.

However, this link faces significant challenges due to a lack of coordination between public and private stakeholders, impacting its effectiveness, transparency, and regulatory compliance.

### Key aspects

Several critical factors hinder the formalisation process and overall operation of ASM in Peru. One of the primary challenges is the limited availability of geological information and technical support during the exploration phase. Additionally, there is a perceived risk for artisanal miners in entering exploitation contracts with concession holders.

The status of non-formal miners, or those still in the process of formalisation, also limits access to formal financing. This restricts their ability to implement adequate technology and equipment for mining operations, forcing them to rely on informal intermediaries or local plants for financing. During this process, intermediaries—commonly referred to as "*facturadores*"—often work with informal or illegal miners, using their valid registration in the REINFO<sup>5</sup> to facilitate the sale or liquidation of ore.

The current regulatory framework does not account for differentiated measures related to extraction techniques, environmental contamination levels, geological conditions,

or the social context of the national ASM sector. As a result, ASM face high costs, long timelines, and complex procedures during the formalisation process, often without perceiving immediate benefits. Instead, they encounter increased costs and bureaucratic hurdles.

To incentivise formalisation, proposals include labour and tax restructuring, creating state-supported trading channels, and redefining the formalisation process based on the REINFO. Cancelling idle concessions could also help boost formalisation efforts and expectations.



<sup>5</sup> National registry of informal miners in the process of formalisation



## Formalisation matrix

To fully grasp the formalisation process within the exploration and operation stage of artisanal and small-scale gold mining (ASGM), it is essential to consider a series of key activities and general requirements that define the successful completion of exploration and production before the gold moves to processing (if applicable) or commercialisation:

**a. Registration in the REINFO:** A crucial tool for collecting information on informal mining activities in the country. Registration in the REINFO is a legal requirement that provides miners with a provisional operating license.

**b. Mining concession / exploitation contract:** To operate legally, artisanal and small-scale miners must obtain an exploitation contract. This title grants them legal access to specific areas for exploration and extraction. Additionally, formalised concessions enhance trust with buyers and business partners, facilitating the negotiation of sales contracts and long-term business relationships.

**c. IGAFOM<sup>6</sup>:** Adhering to the IGAFOM ensures that mining operations are conducted sustainably and with environmental responsibility, contributing to the conservation of natural resources and pollution prevention.

**d. Labour compliance:** Meeting labour regulations is critical to safeguarding workers' rights. Proper labour management is increasingly viewed as a competitive and reputational asset for ASM operations, as companies and buyers prioritise compliance with labour standards and corporate social responsibility in value chains.

**e. Access to financing:** Financing plays a significant role in the competitiveness and sustainability of ASM operations, enabling miners to invest in technology, equipment, and training to boost operational efficiency and productivity. This, in turn, opens access to more demanding and profitable markets.

**f. Taxes and duties:** Complying with tax obligations and mining rights is fundamental to formalisation. Although tax compliance can affect miners' ability to compete in the local and international market due to higher production costs and, therefore, changing gold prices, it also enhances the perception of social and environmental responsibility among consumers and gold buyers, improving market competitiveness.

**g. Gold sales:** Artisanal and small-scale miners can sell gold directly to collection centres, intermediaries, or mills for processing. These transactions must comply with legal regulations and requirements set by the relevant authorities to ensure the traceability and legality of the gold value chain, preventing the





















<sup>6</sup> Environmental Management and Oversight Tool for the Formalization of Small-Scale Mining and Artisanal Mining Activities.

commercialisation of illegal gold. However, limited access to formal markets and reliance on informal intermediaries can restrict sales opportunities and reduce miners' income.

Addressing these key influencing factors and requirements is essential for promoting formalisation in the ASM exploration and operation phase, fostering sustainable sector development and ensuring compliance with relevant regulations and standards.

The table below outlines the formalisation matrix for the exploration and production stage, highlighting the key influencing factors and estimated status of stakeholders along the formality spectrum, along with the corresponding requirements and activities.

**Table: Formalisation matrix for exploration and production phase**

Key activities and formalization requeriments	Spectrum of formality anf types of formalization				Influencing factors	
	Formal	Informal		Illegal		
	Compliant	Formalization in process	Could be formalized	Forbidden		
1. REINFO					Regulatory	X
					Market-related	X
					Subjective	X
2. Mining concession					Regulatory	X
					Market-related	X
					Subjective	X
3. IGAFOM					Regulatory	X
					Market-related	X
					Subjective	
4. Labor management					Regulatory	X
					Market-related	X
					Subjective	
5. Access to financing					Regulatory	X
					Market-related	X
					Subjective	X
6. Taxes and duties					Regulatory	X
					Market-related	X
					Subjective	
7. Gold sale					Regulatory	X
					Market-related	X
					Subjective	X





## 2. Intermediary and Processing Plant Stage

In this stage, processing plants play a key role in processing ore extracted by artisanal and small-scale mining (ASM) producers. These plants are responsible for smelting the ore and producing gold bars for market sale.

Beyond their core function, some plants also act as intermediaries, purchasing gold from producers through various trading channels, including shippers and informal traders. During this phase, the ore undergoes several processes to improve the quality of the final product.

### Key aspects

The primary challenge in this stage lies in the transformation of illegal gold into legal gold within the value chain. Processing plants, many of which also handle transportation and trading, straddle the line between legality and illegality. This coexistence of plants operating both within and outside legal frameworks underscores the urgent need to address key issues affecting formalisation in this sector.

Some of the **main incentives** that would lead to **formality** in this stage include:

- Technological modernisation and specialised equipment to enhance competitiveness and promote legality of these operations.
- Addressing environmental impacts and occupational health risks to foster social and environmental responsibility within the industry.

- Training and specialised guidance improving operational quality and efficiency while ensuring compliance with environmental and labour regulations.
- Access to financing providing capital for modernisation and overcoming financial barriers to encourage the adoption of sustainable and efficient practices.

### Formalisation matrix

The following critical factors and requirements are essential for formalising the intermediary phase in the ASM gold value chain:

- a. Legal status**, a fundamental requirement for the formalisation of both plants and intermediaries in the ASM gold value chain.
- b. Operating and environmental license**, ensuring operations are legally and environmentally compliant.
- c. Purchasing of gold**, including its formalisation, is essential to promote transparency and legality throughout the process. Gold buyers-whether processing plants or intermediaries-must ensure that all transactions comply with established regulations and requirements. This includes verifying both the legality and the origin of the gold being purchased.
- d. Access to financing** facilitates the formalisation of plants and intermediaries in the gold value chain. It enables them to

expand operations, invest in advanced technology, meet formalisation requirements, and even serve as financiers within the gold value chain.

























**e. Taxes and duties:** Compliance with tax obligations is crucial for the formalisation of plants and intermediaries.

**f. Sale of gold:** Facilitating legal and formal gold sales through registration in the

REPCO and compliance with international standards for quality, safety, and traceability.

The table below presents the formalisation matrix for the intermediary and processing plant stage, detailing the factors and requirements relevant to formalisation, as well as the estimated positions of actors along the formality spectrum.

**Table: Formalisation matrix for the intermediary and plan stage**

Key activities and formalization requirements	Spectrum of formality and types of formalization				Influencing factors	
	Formal	Informal		Illegal		
	Compliant	Formalization in process	Could be formalized	Forbidden		
1. REINFO					Regulatory	X
					Market-related	
					Subjective	X
2. Operating and environmental license					Regulatory	X
					Market-related	
					Subjective	X
3. Purchasing of gold					Regulatory	X
					Market-related	X
					Subjective	X
4. Processing					Regulatory	X
					Market-related	X
					Subjective	X
5. Access to financing					Regulatory	X
					Market-related	X
					Subjective	
6. Taxes and duties					Regulatory	X
					Market-related	X
					Subjective	
7. Gold sale					Regulatory	X
					Market-related	X
					Subjective	X



### 3. Final Trading and Export Stage

At this stage, artisanal miners, small-scale miners, and processing plants or whoever stores the processed ore must find buyers for their products, either directly or through intermediaries, for domestic sales or export. Specialised export companies and plants play a key role in the final trading phase. They adhere to protocols and standards to export gold to markets such as Canada, Switzerland, the United States, India, the United Kingdom, and the United Arab Emirates, where it is refined and sold globally. In these cases, gold trading is generally legal.

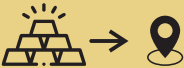

For ASM operators to make formal sales directly, they face challenges stemming from the first link, such as securing an exploitation contract, obtaining a concession, and demonstrating the traceability of the gold. These hurdles, combined with the requirements applicable to international transactions, push most miners to opt for non-formal markets.

#### Regarding exports

Gold buyers and exporters must comply with trading and export regulations established by Peruvian authorities. This includes declaring the origin of the gold and paying the applicable taxes.

According to the "Gold Export Guide for Small-scale and Artisanal Mining (2022)" by the Swiss Better Gold Initiative, the stakeholders involved in exports are either mining organisations, which operate as exporters (with legal status), or the buyers, such as foreign companies or refiners.

The guide and interviews applied confirm two main types of exports:

<div><b>a. Direct exports:</b></div> <div></div> <div>The exporting organisation sells the gold directly to the buyer (who acts as the importer), without intermediaries. This approach gives the exporter control over each stage of the export process and allows for direct relationships with international buyers.</div>	<div><b>b. Indirect exports:</b></div> <div></div> <div>The mining organisation transfers the gold domestically to an intermediary, who then manages the export on their behalf. This method is recommended for first-time exporters as it allows them to gain experience and potentially move toward direct exports in the future.</div>
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## Key aspects

Government efforts to monitor and control the final trading and export stages are limited. Export volumes often exceed recorded production, making this phase crucial for official export figures and estimating tax evasion throughout the value chain.

All stakeholders involved in the gold trade must be registered in the RECPO. However, the RECPO faces serious shortcomings, including an incomplete registry, poor filtering for registration, and a lack of penalties for non-compliance.

## 4. On Illegal Trade

Illegal mining is closely linked to criminal groups involved in money laundering, posing a significant threat to local, national, and regional economies (UNODC, 2023). According to an analysis by the Department against Transnational Organised Crime, the gap between exports and official gold production in Peru may be attributed to unregistered informal and illegal mining (OAS-DDOT, 2021).

The 2016 National ML/TF Risk Assessment (NRA) highlighted the high prevalence of criminal activities in Peru, with illegal mining being one of the most significant due to the vast amounts of money it generates and the widespread distribution of mining sites across the country. The report also revealed that these risks are exacerbated by the state's limited oversight capacity, largely due to insufficient resources allocated to combat illegal mining. Additional challenges include corruption, lack of coordination between institutions, and the absence of a unified strategy across the entire state apparatus.

### Formalisation matrix

Key activities and requirements for formalising this stage in the value chain include:

**a. Legal status:** To trade processed gold, individuals or companies must have legal status and be registered in the RECPO to engage in gold purchase and sale transactions.

**b. Purchasing of gold:** Traceability of purchased gold is essential. Gold transactions in Peru must comply with the regulations for the Commercialisation of Gold Minerals established by the General Directorate of Mining, meaning that gold must be bought from authorised miners and producers, with verification of origin.

**c. Access to financing:** Facilitating access to finance for plants and intermediaries is crucial for formalisation.








**d. Taxes and duties:** Plants and intermediaries must fulfil their fiscal obligations, including paying taxes as required by current laws and regulations. For small producers and artisanal miners, the royalty rate is set at 0%.

**e. Gold sales/export:** Final traders must sell gold through formal and legal channels to ensure traceability.

There are several benefits from exports. Tax advantages include access to refunds on export credit balances, recovery of tariffs paid on imported inputs (if applicable), and exemption from payable taxes. Business benefits include improved commercial terms through access to international markets; enhanced reputation with financial institutions and capital markets due to a greater world-wide presence; and improvements in management models and production capacity, contributing to greater competitiveness.

The following table presents the formalisation matrix for the final trading-export stage, highlighting the critical factors and the estimated concentration of stakeholders based on the formality spectrum, along with key requirements and activities.

**Table: Formalisation matrix for the final trading-export stage**

Key activities and formalization requirements	Spectrum of formality and types of formalization				Influencing factors	
	Formal	Informal		Illegal		
	Compliant	Formalization in process	Could be formalized	Forbidden		
1. Legal status					Regulatory	X
					Market-related	X
					Subjective	
2. Purchasing of gold					Regulatory	X
					Market-related	X
					Subjective	
3. Access to financing					Regulatory	
					Market-related	X
					Subjective	X
4. Taxes and duties					Regulatory	X
					Market-related	
					Subjective	
5. Gold sale					Regulatory	X
					Market-related	X
					Subjective	



## 5. Overall Assessment of the Value Chain

With regard to the major problems, three critical issues have been identified that undermine the effectiveness of the ASM gold value chain.

**1.** The first issue relates to concessions, most of which are allocated to formal, medium- and large-scale mining operations. This situation often prevents artisanal miners from negotiating contracts with concession holders. Additionally, many communities where informal mining takes place are unwilling to reach agreements with companies that hold concessions in their territories.

For miners operating on concessions held by formal companies without exploitation agreements, entering the formalisation process through the REINFO is an option. However, they are unlikely to complete the process unless there is a convergence of interests between both parties. In some cases, agreements can be reached with concession owners, but a deal is also required with the landowner where exploration and mining operations will take place.

**2.** The second issue arises at the points where informal and illegal gold is converted into legal gold. Two critical nodes in the ASM value chain, **trading** and **processing at the plants**, and where there are different **stakeholders** that will allow the gold to become legal, play a pivotal role in this transformation. **Intermediaries** often visit artisanal mining sites to purchase gold at lower prices, which miners accept due to the reduced transportation risk and the

immediate cash flow. Additionally, intermediaries frequently offer credit or advances on future purchases, creating a vicious cycle that facilitates the conversion of illegal gold into legal gold without meeting formal requirements, such as paying taxes.

**Processing plants** also play a similar role. In some cases, they transport the gold from the mining sites and handle its subsequent sale, effectively legalising informal or illegal gold through these purchases. In other cases, the miners themselves transport and sell the gold directly to the plants, formalising gold that originates from miners who are not fully formalised.

**3.** The third issue is the lack of government involvement. Regional Directorates of Energy and Mines face staff shortages and insufficient financial resources, which hampers their ability to verify the traceability of gold. There is no established system to monitor traceability across the value chain, and public policies based on data collected through the REINFO have yet to be developed. Using the registry, various classifications could be made to implement targeted measures based on geographic areas and the status of different types of artisanal miners.



Several bottlenecks and factors hinder the effectiveness ASM, among them:

- The government does not remove informal mining companies from the REINFO even after they stop the formalisation process, allowing them to continue enjoying the benefits despite their suspended status.
- Large mining companies often exclude local communities from their operations, forcing them to work informally and independently.
- In many cases, plants offer miners unfair commercial terms, prompting miners to process the ore themselves and transport excess material or tailings to the plants.
- The formalisation process imposes opportunity costs on miners, whereas informal miners, who avoid such costs, can achieve higher profits more quickly.
- Formalisation brings increased oversight and monitoring, which some miners view as a risk. If irregularities are discovered, even miners willing to comply with the law may face operational restrictions in the future.
- The limited use of technology in ASM, combined with the low startup costs for informal operations, perpetuates informality in many regions of the country.
- Many artisanal miners rely on a day-to-day income, leaving them without financial reserves to invest in advanced technologies or begin/continue the formalisation process.
- Financial institutions often lack understanding of the distinctions between formal and informal miners.
- The willingness of intermediaries, traders, and plants to purchase gold without verifying its origin encourages informal miners to continue working outside the formal system.
- Strengthening the skills and competencies of local and national professionals involved in ASM is necessary. This can be achieved through technical assistance agreements with academic institutions and international organisations.





## Recomendations

This report also offers several recommendations aimed at strengthening formal small-scale and artisanal miners while fostering conditions for a credible and sustainable formalisation process. These recommendations include:



- Enhance the role of the state in promoting the development of formal mining activities and generating greater local impact in ASM areas.
- Encourage models of coexistence between medium-scale and small-scale/artisanal mining, allowing ASM operations in areas designated for exploration, thereby contributing to geological assessments that may not be cost-effective for medium-scale miners.
- Promote strategies for miners to secure exploitation contracts based on the type of third-party concessions they occupy. Since approximately two-thirds of miners registered in the REINFO operate on third-party concessions, clear action plans are needed to help these miners secure exploitation contracts and establish transparent agreements for surface land use.
- Foster collaboration between the public and private sectors to implement mechanisms that promote the inclusion of ASM within the formal banking system. This can be achieved through a comprehensive plan for access to financial products and services.

## Incentives and Rationale Around Formalisation in the Gold Value Chain in Bolivia, Colombia and Peru



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