

# Artisanal and Small-Scale Gold Trade in Mongolia – A Review of Current Policies and Practices

This report provides an overview of existing gold trading practices in the ASGM sector in Mongolia, the current legal environment regulating gold trade including the Mongolian state gold-buying program, and discusses challenges and opportunities to regulate and formalize gold trade in Mongolia.

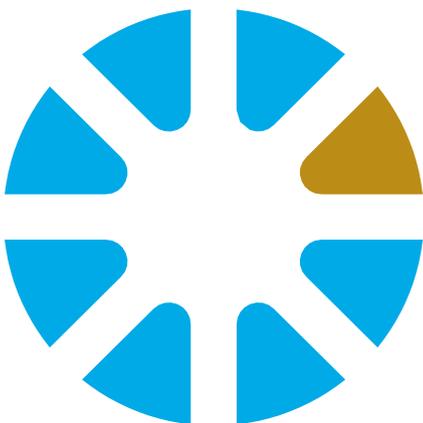
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## Abbreviations/Acronyms

Abbreviation/Acronym	Definition
AGC	Artisanal Gold Council
ASGM	Artisanal and Small-scale Gold Mining
ASM	Artisanal Small-scale Mining
ASM NF	Artisanal and Small-scale Mining National Federation of Mongolia
ASMO	Artisanal Small-scale Mining Organization
BoM	Bank of Mongolia
CRAFT	Code of Risk-mitigation for ASM: engaging in Formal Trade
CRK	Citizens Representative Khural
DPMS	Dealers of Precious Metal and Stones
EU	European Union
FATF	Financial Action Task Force
FRC	Financial Regulatory Committee
IFF	Illicit Financial Flow
IRIM	Independent Research Institute of Mongolia
KII	Key Informant Interview
LBMA	London Bullion Market Association
LLC	Limited Liability Company
LSM	Large Scale Mining
MNT	Mongolian National Tugrik
MRPAM	Mineral Resources and Petroleum Agency of Mongolia
OECD	Organization for Economic Cooperation and Development
OSS	One Stop Service
PMAID	Precious Metals Assay Inspection Department
SDC	Swiss Agency for Development and Cooperation
USD	United States Dollar

## Acknowledgements

This report was authored by Dulguun Mijiddorj (Investment Specialist, planetGOLD Mongolia), Altanbagana Bayarsaikhan (National Project Manager, planetGOLD Mongolia), and Mareike Kroll (Project Manager, planetGOLD Mongolia; Director of Health and Research, Artisanal Gold Council). The whole planetGOLD Mongolia team supported the data collection during various field visits.

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The planetGOLD programme is funded by the Global Environment Facility, led by the United Nations Environment Programme, and implemented in collaboration with the United Nations Development Programme, United Nations Industrial Development Organization, and Conservation International. Supporting countries' commitments under the Minamata Convention on Mercury, planetGOLD is working to eliminate mercury from the supply chain of gold produced by artisanal and small-scale miners in Burkina Faso, Colombia, Ecuador, Guyana, Indonesia, Kenya, Mongolia, Peru, and the Philippines. The 'child project' planetGOLD Mongolia is executed by the Artisanal Gold Council (AGC) in partnership with the Government of Mongolia through the Ministry of Environment and Tourism.

Based in Victoria, Canada, the Artisanal Gold Council (AGC) is a not-for-profit organization dedicated to improving the working conditions, opportunities, environment and health of the millions of people involved in ASGM in the developing world.

## About this report

Gold trading policies and practices play a critical role in formalizing the Artisanal and Small-scale Gold Mining (ASGM) sector in Mongolia. The efficient operation of artisanal gold supply chains acts as an effective mechanism to transfer resources, capital, standards and regulations into artisanal mining communities, leading to improved mining practices and legal compliance. The entire supply chain, which represents an interconnected chain of actors involved in extraction, processing, assaying, buying and/or trading, should be considered when establishing efficient artisanal gold mining operations and gold trading practices.

This report provides an overview of existing gold trading practices in the ASGM sector in Mongolia, the current legal environment regulating gold trade, including the Mongolian state gold-buying program, and discusses challenges and opportunities to regulate and formalize gold trade in Mongolia. Finally, this report also provides recommendations for regulating financial flows in ASGM in Mongolia in respect to gold trade, traceability, taxation, and law enforcement through government cooperation. This synthesis report is based on findings from three separate studies:

1. The Site Selection report, conducted by the planetGOLD project Mongolia in 2019 (internal project document);
2. The Contextual Study of the AGSM sector, conducted by the planetGOLD Mongolia team<sup>1</sup> in 2021/22 (internal project report); and
3. A combined study, consisting of a Legal Framework Assessment and Illicit Financial Flows Assessment on gold trade, which was conducted by the Independent Research Institute of Mongolia (IRIM) in 2020/21 in close collaboration with the planetGOLD Mongolia team (internal report).

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<sup>1</sup> The data collection for the Contextual Study was conducted in collaboration with SICA LLC.

# 1. Methodology

This section provides a brief overview about the methodology which was applied in the three studies this synthesis report is based on.

## 1.1 Site Assessment Report

The planetGOLD Mongolia project and staff from AGC conducted a structured site assessment in 2019, covering 10 ASGM sites in 5 aimags (Selenge, Umnugovi, Khovd, Gobi-Altai and Tuv). The report covered 8 sections, including gold trade, supply chain and due diligence. Methods applied included semi-structured interviews with 162 individuals and site observation.

## 1.2 Contextual Study

The data collection for the Contextual Study was directed and authored by the planetGOLD Mongolia project team and was conducted in June 2020 with inputs by SICA LLC. The objective of the study was to provide a baseline assessment of current conditions, standards, and practices of artisanal and small-scale mining in the selected study areas, identified during the site assessment:

1. Bayangol soum (soum=sub-province) in Selenge Aimag (aimag=province) (hereinafter referred as “Bayangol”),
2. Mandal soum in Selenge Aimag (excluding Tunkhel village) (hereinafter referred to as “Mandal”),
3. Tunkhel village in Mandal soum (hereinafter referred to as “Tunkhel”),
4. Yusunbulag soum in Gobi-Altai aimag (hereinafter referred to as “Yusunbulag”), and
5. Altai soum in Khovd aimag (hereinafter referred to as “Altai”).

A mixed-methods approach was applied, combining data from a quantitative survey among 371 miners (100 women, 271 men) and qualitative key informant interviews (KII) with 73 interviewees, including local and national government officials, partnership leaders and civil society organizations.

## 1.3 Illicit Financial Flows Report

The Illicit Financial Flows (IFF) assessment was conducted in June-July 2020 by the Independent Research Institute of Mongolia (IRIM) in the following locations:

1. Bayankhongor aimag (Bayan-Ovoo and Bumbugur soums),
2. Darkhan-Uul aimag (Darkhan and Shariin gol soums),
3. Tuv aimag (Bornuur, Zaamar and Zuunmod soums), and

#### 4. Ulaanbaatar.

The IFF study was conducted based on a desk review of relevant legal documents and reports as well as KIIs with 139 respondents (61 women, 78 men), which included leaders of ASM organizations, miners, traders, One-Stop-Service (OSS) workers, representatives from banks and processing plants, as well as central and local government officials.

## 2. The Artisanal Gold Mining Sector in Mongolia

Mongolia has traditionally been a livestock-based economy. The transition to a market economy during the 1990s initially caused significant economic disruption bringing about a rapid increase in unemployment and underemployment ushering an increase in poverty across the country. Mongolians looked for any opportunity to sustain themselves and their families, and workers from other sectors were driven into Artisanal and Small-scale Mining (ASM) out of economic necessity. A study estimated in the early 2000s that 100,000 people, who indirectly supported more than 400,000 Mongolians, were trying to support their families through artisanal mining (World Bank, 2007)<sup>2</sup>. Lack of data on the number of unregistered miners as well as seasonality and fluctuations make it difficult to estimate the total number of artisanal miners in Mongolia today. However, it is estimated that 40-60,000 miners are working in the sector, a third of them being women, supporting another 120-180,000 people (SAM, 2010, 2018)<sup>3</sup>.

Initially, the Government of Mongolia considered ASM as a temporary social phenomenon; it was assumed the sector would disappear as a result of the country's economic growth and rapid development of formal mining. For this reason, for the initial decade of 2000, the Government did not take any serious steps to create a legal environment that recognizes the presence and supports the development and conduct of artisanal mining. Instead, the Government focused largely on stopping or banning the practice, characterizing the practice as criminal and imposing penal provisions. However, the increasing number of artisanal miners resulted in an increase of environmental degradation as well as accidents and fatalities due, among other reasons, to poor or non-existent health and safety measures.

Therefore, the Government had to take action to regulate the sector. In 2010, ASM was officially recognized by amending the Minerals Law and approving the ASM Regulation #308, paving the way for Mongolian artisanal miners to be organized and formalized. According to the Artisanal and Small-scale Mining National Federation of Mongolia (ASM NF), there are 844 ASM partnerships with 9,178 registered miners as of 2020, of which 7791 are gold miners from 777 partnerships.

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2 World Bank (2007). Mongolia Sources of Growth. Country Economic Memorandum. <https://openknowledge.worldbank.org/handle/10986/7806>

3 SAM Project Document Phase 2 (2010): [https://asmhub.mn/uploads/files/2010-2014-sam-project-document-phase-iii-eng\\_1.pdf](https://asmhub.mn/uploads/files/2010-2014-sam-project-document-phase-iii-eng_1.pdf)  
SAM Project Factsheet (2018): <https://asmhub.mn/uploads/files/factsheet-english-2018.pdf>

## 3. The Regulatory Context of Gold Trade in Mongolia

Mongolia manages a state gold-buying program where the entire formal gold supply chain is regulated by the Mongolian Government. Therefore, all domestic formal sales of gold from ASGM sites should comply with the state gold trading regulations and be sold into these formal channels. Artisanal miners can sell gold formally either to a state-accredited gold trader or directly to the Bank of Mongolia (BoM) through their gold buying centers or via an authorized commercial bank.

All gold sold to the BoM must include an official assay report of the gold. Currently, the Precious Metals Assay Inspection Department (PMAID), a government agency, is the only authorized entity to issue assay reports. PMAID is currently accepting a minimum of 50 grams of gold for assaying. However, in January 2020, the BoM re-drafted the Treasury Fund Law, to accept assay results not only from PMAID but also from other private laboratories (Mongolian Parliament, 2020)<sup>4</sup>. Once the draft Law is approved, it will be a significant step in the decentralization of the gold trade in Mongolia which may make it more efficient and cost effective.

The BoM announces its daily gold buying price based using LBMA market prices by deducting 2 USD per ounce for refining cost (since 2018). Furthermore, the royalty tax of 5% is deducted from the payment.

### 3.1 One-Stop-Service

In 2018, two One-Stop-Services (OSS) centers for gold assay and purchasing funded by the BoM, PMAID and the Swiss Agency for Development and Cooperation (SDC) were established in Darkhan-Uul and Bayankhongor aimags as a first step to decentralize and formalize the gold trade. The OSS has combined the operation of a laboratory for assaying the gold and a branch office of one of the commercial banks (Capitron, Golomt and Khan Bank), where miners and gold traders sell their gold after getting the assay results from the laboratory. In summary, the OSS is a combined model that provides a sampling and assay laboratory, and a bank service. However, the operation and requirements of OSS need improvements to encourage miners to sell their gold to the OSS (see Barriers to Sell to the Bank of Mongolia).

### 3.2 License for Gold Trade

For a long time, Mongolian gold traders have been conducting their business outside a regulatory framework. Until March 2020, gold traders were neither regulated nor accredited. In October 2019, Mongolia was put on the Financial Action Task Force (FATF)<sup>5</sup> watch list, commonly referred

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4 Mongolian Parliament. 2020. Online consultation for the re-draft of the Treasury Fund Law: <http://forum.parliament.mn/projects/10780>

5 The Financial Action Task Force (FATF) is the global money laundering and terrorist financing watchdog. The inter-governmental body sets international standards that aim to prevent these illegal activities and the harm they cause to society. FATF developed the 40+9 recommendations which provide international requirements and standards necessary for combating money laundering and terrorist financing.

to as the “grey list”, due to strategic Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) deficiencies. It revealed the underlying issues in the system that needed to be addressed. These included urgent improvements to the supervision of real estate, cash inflow, prosecution, and investigation of financial crimes, including operations on detecting, confiscating, and checking the origin of gold, precious items and cash taken over the border. Mongolia approached the issue and after 12 months of endeavor, it managed to show significant progress in addressing the deficiencies identified by the intergovernmental organization in 2019, and Mongolia was removed from the grey list (FATF, 2020,<sup>6</sup> APG, 2021)<sup>7</sup>.

The Government made several adjustments, including enacting new regulations on formalizing the gold trade. The Financial Regulatory Commission (FRC) was tasked to issue licenses to formalize gold traders and regulate their activities, as detailed in the Special License Law and the Law on Legal Status of FRC. The FRC through Resolution No.150 of March 2020, approved the “Procedure for licensing, permitting and registering of traders of precious metals, precious stones or items made of them”. This effectively paved the way for many gold traders to secure legal status. As of December 31st, 2020, a total of 30 legal entities and 399 citizens received licenses (FRC, 2020)<sup>8</sup>.

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6 Financial Action Task Force (FATF) (2020): Jurisdictions no longer subject to increased monitoring by the FATF; <http://www.fatf-gafi.org/countries/d-i/iceland/documents/increased-monitoring-october-2020.html>

7 Asia Pacific Group on Money Laundering (APG) (2021): Mutual Evaluation of Mongolia. 4th follow up report. July 2021. <http://www.fatf-gafi.org/media/fatf/documents/reports/fur/APG-Follow-Up-Report-Mongolia-2021.pdf>

8 Financial Regulatory Commission of Mongolia (FRC, 2020): Reporting on activities of 2020 of FRC. [http://www.frc.mn/a/3466?fbclid=IwAR1-PgmUG2FneKcakN2t4h9CynN69nxVk70wcDXvtDrZW8GnemC05Pv\\_3Vk](http://www.frc.mn/a/3466?fbclid=IwAR1-PgmUG2FneKcakN2t4h9CynN69nxVk70wcDXvtDrZW8GnemC05Pv_3Vk)

## Info box 1: Formalization of Gold Trade in Mongolia

As stated in the Regulation “Procedure for licensing, permitting and registering of traders of precious metals, precious stones or items made of them”, traders in precious metals, such as gold, must operate with a license. Trading entities are required to have a designated officer in charge of control over the implementation of Law on Anti-money Laundering and Combatting the Financing of Terrorism and have their own program for internal control and risk management to fight money laundering and the financing of terrorism. In addition, the new regulation requires traders to trade products verified by assaying; with results provided by the state administrative agency in charge of assaying. Trading in precious metals of unknown origin shall be subject to penalties, including suspension of licenses for up to three months or their revocation.

Article 2 describes the terms and conditions for the license. It requires applicants to have mutual funds (charter funds) to be cash, which differ in terms (of amount) depending on where the applicant operates; soum center, aimag center, or the capital. For example, precious metal traders working at the soum level must have a minimum of MNT 25.0 million (approx. \$8,775), and traders in the capital must have MNT 50.0 million (approx. \$17,550).

The Regulation obliges license holders to meet the following common requirements, including:

- ▶ Reporting transactions of MNT 20.0 million (approx. \$7,020) or more to the Financial Information Unit of the BoM,
- ▶ To be trained and certified in anti-money laundering and combatting the financing of terrorism,
- ▶ To maintain customer due diligence, and
- ▶ Precious metals to be assayed and verified.

Article 3 of the Regulation describes regulations on issuing licenses.

Article 4 of the Regulation includes regulatory clauses regarding suspending, resuming, and revoking/cancelling licenses.

Article 5 of the Regulation describes the regulatory setting on licensing, refusing of licenses and revoking of licenses. Licensed persons must notify all changes in their operations to the FRC and get permission in each case.

Article 6 of the Regulation describes the procedures on registration of persons that are engaged in trading and dealing. As specified in this article, traders must notify changes in authorized officials and the address of the trading entity to the FRC. In cases where the formal address is changed, it must be notified to the FRC, in writing, within 10 working days.

Article 7 describes the responsibilities and sanctions for violations, including: those that violate the Regulation shall be subject to penalties according to respective laws. In cases where the accused party does not agree with the decision of the FRC imposing penalties, it can be challenged/appealed to the Oversight Council of the FRC.

## 4. Challenges and Opportunities to Formalize the Gold Trade in Mongolia

Based on desktop studies, informal interviews, and observations from the planetGOLD Mongolia team during site visits in 2019, the informal market in Mongolia is very accessible and offers almost equal gold prices compared to the BoM, especially in Ulaanbaatar. In the mining sector, it is common knowledge that anyone can take their gold to the Urt Tsagaan gold market in Ulaanbaatar and sell their gold at a competitive price for cash with no requirements of traceability or due diligence (planetGOLD Mongolia, internal project document, 2019). The success of Mongolia’s efforts to formalize the gold trade depends on whether miners and traders have an incentive to sell their gold to the BoM, and conversely the barriers and disincentives to sell gold informally.

Figure 1 summarizes the major legal and illegal gold trading practices in Mongolia and highlights the current practices, which – up to date – mainly involve local and national gold traders.

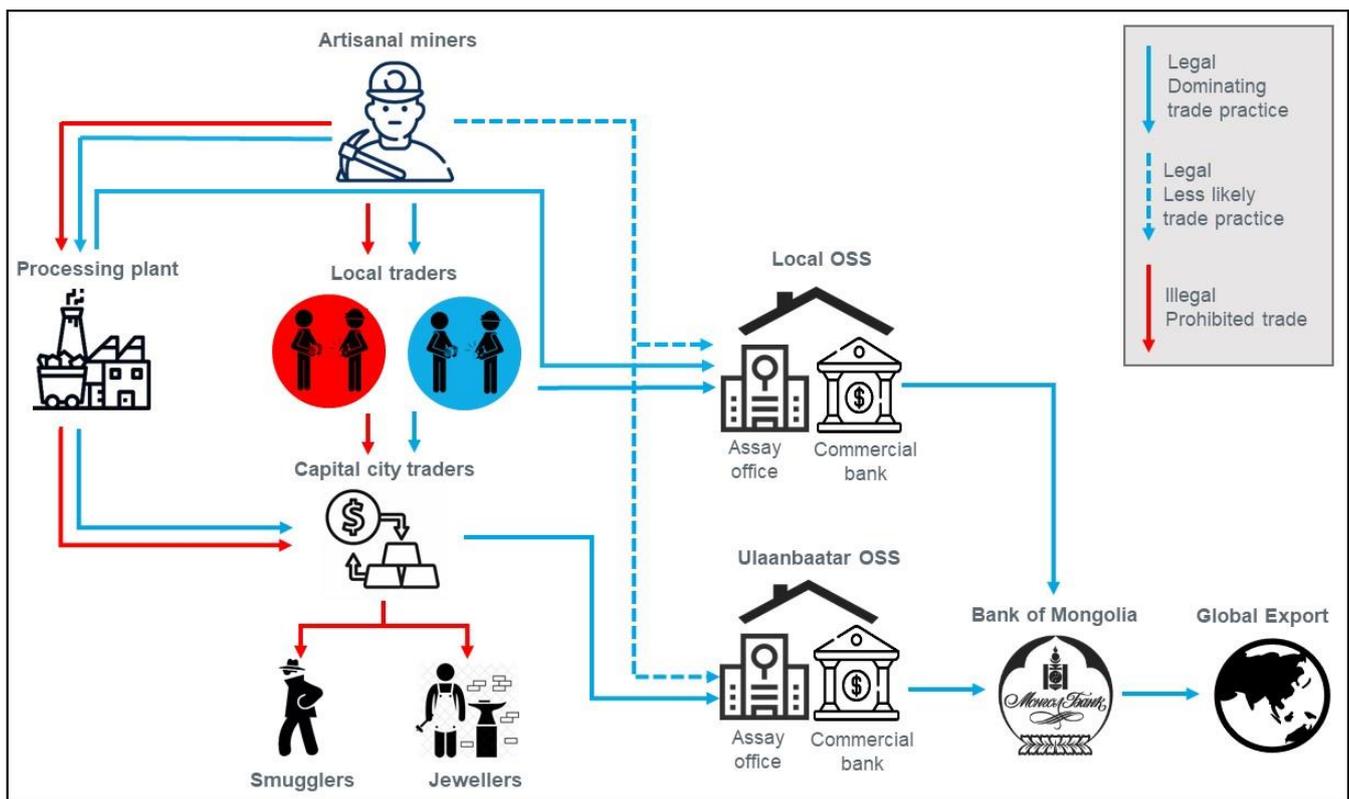


Figure 1. Visual of Mongolian ASGM Supply Chain (planetGOLD Mongolia, 2021)

The following sections discuss existing barriers of miners to sell to formal traders and to access finance to professionalize their businesses, barriers to sell to the Bank of Mongolia and the lack of compliance of the Mongolian gold trade with international traceability and due diligence requirements.

## 4.1 Limited Formal Trade Options

Most artisanal miners lack the time and resources to bring gold to the formal, centralized market (see Barriers to sell to the Bank of Mongolia) and therefore deal with local and regional gold traders at the soum and aimag levels. These traders play an important role as they finance the purchase of smaller quantities of gold from artisanal miners and processing plants, then aggregating the gold into larger volumes for transporting and selling either formally to the BoM's official gold buying facilities, to larger traders in Ulaanbaatar (most of them residing in an area called "Urt Tsagaan"), to goldsmiths or informally to smugglers/exporters (Figure 1).

Gold traders are easily accessible for artisanal miners to sell their gold for cash. Gold traders operate networks on various levels and can be classified as soum-based, aimag-based and city-based. Local traders buy gold from soums, take it to the aimag and/or the city to sell to the BoM or other traders. The Contextual Study and Gold Trade Assessment revealed that each soum with an active ASGM has on average about four or five gold traders, with gold trade usually as a side business, and an aimag center has on average 9 to 10 active gold traders. Based on interviews with miners and traders, there are approximately 20 miners (individual miners and miners from ASMOs) per soum and 100 per aimag center who frequently deal gold with the local traders.

Lack of regulation for gold traders can create unfavorable conditions for artisanal miners. Gold traders in some areas, for example, in Bayankhongor, use outdated weighing units such as liang, qian, fen, yang, to weigh gold. They also use the touchstone method<sup>9</sup>, in which they draw a line with the gold on the assaying tool/stone and visually determine the quality of gold. These methods could restrict opportunities to sell gold at market price. Some miners know the conversion between liang, fen and grams; but some simply trust the trader due to lack of knowledge. However, gold traders and artisanal miners know each other well, as they are from the same community. Hence the trade is based on mutual trust. In addition, some miners have taken loans from local traders and are obliged to pay back with mined gold (IRIM, 2021, unpublished report).

A lack of diversified trading options for miners is a current weakness in the local gold buying markets in the key ASGM regions of Mongolia (Table 1). The Contextual Study showed that in Yusunbulag, Tunkhel and Khovd, miners were dependent on only one buyer or one type of buyer. This is different than many other ASGM communities or operations in other countries where gold trade often operates in a competitive manner through a local marketplace with many traders competing for miner's gold through price incentives.

In areas with operating processing plants, the processing plants mostly dominate the local ASGM trade. Some miners indicated that they are obliged to sell their gold to the processing plant owners in exchange for using their facilities. During the Contextual Study, 31% of respondents reported that they do not assay their gold at all but trust the traders and 43% are using a less reliable water

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<sup>9</sup> <https://www.britannica.com/technology/touchstone-metallurgy>

density method. In addition, 45% of respondents receive their gold price information from the gold buyer, 23% from a processing plant owner and only 10% from the Bank of Mongolia. This results in a relatively uncompetitive market, which creates dependence and reduces miners' negotiating power with buyers ultimately reducing their income.

Table 1. Local market trading options indicated by partnership leaders with trade experience

Diversity of Local Market Trading Options	Bayangol (n=5)	Mandal (n=11)	Tunkhel (n=5)	Yusunbulag (n=8)	Altai (n=7)
Only have option of selling to one buyer	60%	55%	100%	63%	86%
Usually sell to the processing plant	0%	36%	100%	50%	0%
Usually sell to aimag trader	40%	55%	0%	38%	86%

Lack of adequate assaying information and limited knowledge about the BoM gold price also creates an opportunity to deliberately misrepresent the true and fair gold price. Hence, artisanal miners are not guaranteed to receive fair gold prices from intermediary gold traders. They openly negotiate the prices paid stating logistics and financing costs related to the supply chain. According to interviews with miners, discounted gold price (compared to the BoM price) set by the soum/aimag buyers varies among different regions. The prices could go as low as 35-40% below the BoM price<sup>10</sup>. According to the data collected by the project, the price discount compared to BoM prices ranges between 13-40%, with the highest prices being offered in Tuv aimag and the lowest prices in Selenge and Khovd aimags. However, prices also differ locally depending on the volume, with smaller amounts usually fetching lower prices, and as some local traders buy at a slightly higher price to secure more gold.

## 4.2 Barriers to Sell to the Bank of Mongolia

### Geographic and Bureaucratic Barriers for Artisanal Miners

The BoM's fixed gold price, even after deducting assaying costs and taxes, is competitive and attractive. BoM buys gold based on the daily rate announced by the LBMA and deducts 2 dollars per ounce for refining, as well as 5% royalty tax. However, this price is not available to miners working in the countryside. They depend on the day-to-day income from mining and selling gold and can't travel to the capital city just to sell a small amount of gold. Instead, they sell to a local soum or aimag trader who buys the gold at low prices (see Limited Formal trade Options).

According to the survey of the Contextual Study, 94% of respondents indicated that they have never sold their gold to the BoM (Figure 2). The study also showed that geographical accessibility (42%) is the main barrier for miners to sell their gold to the BoM. With vast areas, underdeveloped infrastructure and transportation systems in Mongolia, miners from remote areas would have to travel several hours or days in order to sell their mined gold to the central bank.

<sup>10</sup> The AGC has been collecting field price gold data, comparing them to Pre-COVID-19 and international spot price, for various countries with ASGM sector, including Mongolia (prices for various locations, for April and May, 2020). See: <https://www.artisanalgold.org/gold-prices-data>

Other barriers include the inability of miners to meet the bank’s requirements (27%) and various administrative barriers (24%) (Figure 3). This mainly concerns the 50-gram threshold as the minimum amount that can be assayed and then sold to BoM. According to the Contextual Study, a single partnership produces on average around 30-52 grams of gold per week. For miners depending on a daily income, the low quantity makes them choose local traders rather than the official gold assaying and trading centers.

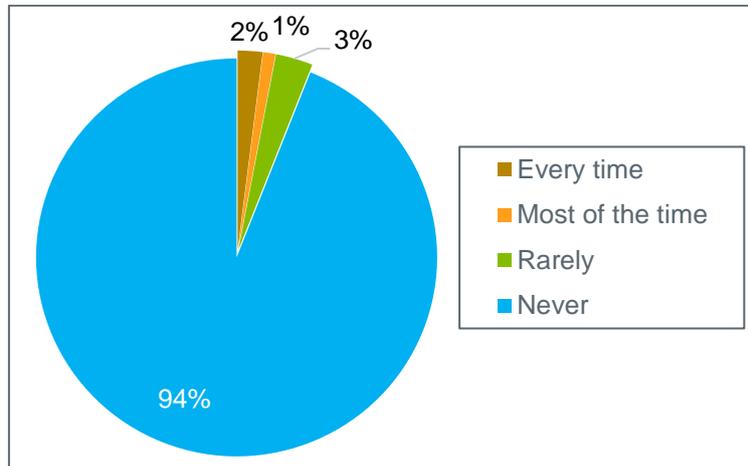


Figure 2. Experience of respondents in selling gold to the Bank of Mongolia (n=371)

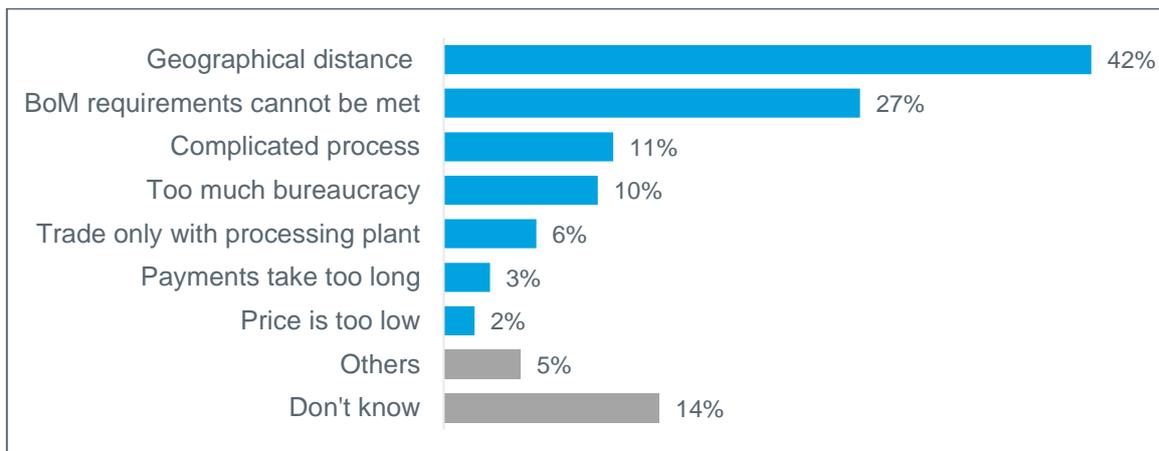


Figure 3. Reasons for not selling to Bank of Mongolia (n=371, multiple answers recorded, total = 443)

Furthermore, some miners claim that payments by the BoM can be delayed. This can be an additional barrier for miners to sell to the official avenues as, from the observations during the field visits, almost all trades at the local level are done via an immediate cash or bank transfer payment. Access to authorized gold traders at the local level as aggregators could partially resolve this issue of geographical distance, but the slow payments will also be a deterrent to the traders, albeit perhaps not as restrictive as it is to miners. In addition, artisanal miners require more information about the process of selling to the BoM or OSS, and its advantages.

## One-Stop-Services

The establishment of the OSSs in Darkhan-Uul and Bayankhongor aimags was the first step in expanding the official gold buying network in important local gold-producing areas to overcome geographic barriers. It also provides opportunities to reduce illegal gold trade. However, because 18 aimags have active ASGM, the number of these two one-stop service centers is insufficient.

In the Illegal Financial Flow Assessment of ASGM in Mongolia, the OSSs were assessed for their effectiveness and whether the miners approached these centers to assay and sell their gold. The results of the survey showed that the 50-gram threshold for gold assaying is a major issue for miners who relied on the daily income from artisanal mining. In addition, miners lacked information on how gold trading is done at the OSS, as they mostly sell gold to traders and the traders sell the collected gold to the OSS at a later stage.

Based on the interview with the representative from OSS in Darkhan aimag, the PMAID retains a small portion (2-3 grams) of the assayed gold as a sample. This is for the purpose of cross-checking the assay results with the assay results of the refiner in Switzerland. However, this process of sample control and verification takes time, sometimes months, when the BoM gold export is prolonged and slow. This could serve as one reason that artisanal miners prefer gold traders instead of selling to the BoM after proper assaying.

Table 2. Advantages and disadvantages of the OSS system according to commercial banks, gold traders and miners<sup>11</sup>

Advantages	Disadvantages
<ol style="list-style-type: none"> <li>1. <b>Selling gold to Commercial banks instead of the Central Bank makes the process easier for gold traders.</b></li> <li>2. <b>Commercial banks buying gold at OSSs increases gold supplied to the BoM and contributes to the Treasury Fund of Mongolia</b></li> <li>3. <b>OSS is close-by (if available at the provincial level), no need to travel to the capital city.</b></li> <li>4. <b>The gold is assayed and sold in one spot.</b></li> <li>5. <b>Possible to control and follow all steps and processes, including smelting and assaying.</b></li> <li>6. <b>Guaranteed and fair price for miners.</b></li> </ol>	<ol style="list-style-type: none"> <li>1. <b>No assaying of small amounts of gold (below 50 grams). Customers arriving in the afternoon have to wait until the next day.</b></li> <li>2. <b>Small samples are drilled and kept for cross-checking the assay results with the refiner, but there is no clear information on when the samples will be returned.</b></li> <li>3. <b>No full explanation of the assay results.</b></li> <li>4. <b>Miners are asked to develop personal income tax reports and pay the taxes at the end of the year.</b></li> <li>5. <b>Fees for smelting and assaying are high.</b></li> <li>6. <b>The process is slow, sometimes results are released a day later.</b></li> <li>7. <b>OSS asks for too many formal materials and information from the miner.</b></li> <li>8. <b>Miners lack information about the OSS operational process.</b></li> </ol>

These findings confirm that artisanal miners face similar barriers selling to OSS, compared to selling to the BoM, except for the geographical distance. Selling gold formally will always imply

<sup>11</sup> (IRIM, 2021, unpublished report).

more bureaucratic procedures than selling informally. The key to overcoming this is to provide adequate incentives to sell to formal markets .

### **Lack of Awareness among Gold Traders**

Interviews with some gold traders indicated that they are open to exploring the formalization of their trading operations and selling to the BoM. A gold trader from Mandal indicated that they applied to the FRC for a gold trading special license. Other soum traders were unaware of this option but were happy to hear that the ASGM gold trade sector is being legalized and regulated. For instance, a gold trader in Gobi-Altai aimag emphasized:

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“I would gladly register as a gold trader. It will be beneficial for me to work based on legal grounds.”

Male gold trader, Gobi-Altai

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According to interviews with gold traders, they either are not familiar with the administrative process of the BoM and do not know how much information the BoM asks for, or they are hesitant to answer questions about the origin of the gold (See sub-section on Compliance with International Traceability and Due Diligence Requirements). Some traders stopped selling to BoM because of the increase in royalty taxes from 2.5% to 5% in April 2019.

### **Tax Evasion**

The Mongolian Tax Law stipulates that a business entity must pay 10% taxes on an income of up to MNT 6 billion (around USD 2,100,000) and 25% tax on any income above MNT 6 billion (Parliament of Mongolia, 2019)<sup>12</sup>. This threshold was increased from 3 billion to 6 billion in 2019. Artisanal mining organizations are more likely to fall into the category below MNT 6 billion. For large-scale mining companies, this threshold could be acting as a strong economic incentive to evade taxes by selling gold under an individual’s name to avoid falling into the higher tax threshold. As a result, some large mining operations sell small quantities of gold to the BoM through individual traders to avoid taxes. In 2019, the BoM purchased 15.2 t of gold, of which 49% or 7.4 t was gold sold by 423 individuals. However, it is not clear how much of this gold was mined by either artisanal miners or industrial gold mining businesses and supplied through gold traders to evade taxes. Traceability would provide greater access to data for the Mongolian authorities allowing the BoM to monitor the collection of taxes.

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12 Parliament of Mongolia: Law on Taxation (2019). <https://legalinfo.mn/mn/detail/14407>

## 5. Compliance with International Traceability and Due Diligence Requirements

The ASGM sector must comply with international gold trading regulations to gain access to the international gold market, which has a knock-on effect on the local gold trade. Over the last decade, the international gold market has undergone a rapid process of formalization and regulation. This was initiated by a convergence of trends; increasing global awareness on the negative impacts of unregulated mining, consumer demand for responsible products, and government regulations to address social and environmental concerns.

As a result, the Mongolian gold trade should now comply with the two critical criteria when selling to the international market: traceability and due diligence. Internationally, all gold must be traded with documented traceability to the mine of origin for every gram of gold purchased, along with due diligence of all participants and suppliers involved in the gold supply chain. These requirements began as voluntary industry standards but have gradually been converted into regulations. For brevity, the two critical standards that must be met are:

- ▶ Organization for Economic Cooperation and Development (OECD) Due Diligence Guidance<sup>13</sup>, and
- ▶ London Bullion Market Association (LBMA) Responsible Gold Guidance<sup>14</sup>.

As of January 2021, according to the new EU Conflict Minerals Regulation<sup>15</sup>, all gold sold into the European Union must comply with traceability and due diligence regulations. In June 2020, Switzerland, where Mongolia currently exports large quantities of gold for refining, has also adopted new rules<sup>16</sup> that follow the blueprint of the EU regulations and the OECD guidelines. However, the BoM is still not able to provide traceability for the gold they purchase. Non-compliance with regulatory requirements may expose the BoM to potential scrutiny and repercussions from the international gold market, or cause the BoM to shift its sales away from Europe to less discerning buyers. Such a shift which would come along with other challenges and could cause a step backwards for the professionalization of the artisanal mining sector.

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13 The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas clarifies how companies can identify and better manage risks throughout the entire mineral supply chain, from miners, local exporters and mineral processors to the manufacturing and brand-name companies that use these minerals in their products. The Guidance aims to help companies respect human rights, observe applicable rules of international humanitarian law in situations of armed conflict, avoid contributing to conflict and cultivate transparent mineral supply chains and sustainable corporate engagement in the mineral sector. The objective of the Guidance is ultimately to promote responsible private sector engagement in post-conflict fragile states.

14 The Responsible Gold Guidance is based on the OECD Due Diligence Guidance as well as Swiss and US Know Your Customer, Anti-Money Laundering and Combatting Terrorist Financing regulations. Since January 2012, Good Delivery refiners have undergone annual audits against the LBMA's Responsible Gold Guidance.

15 The regulation covers minerals and metals of: gold; tin; tungsten; and tantalum. The regulation requires EU companies in the supply chain to ensure they import these minerals and metals from responsible and conflict-free sources only.

16 <https://www.iflr.com/article/b1sq3tqx4kqnl/esg-reporting-and-due-diligence-obligations-introduced-in-switzerland>

Apart from the lack of traceability along the supply chain, artisanal miners will have to comply with OECD and LBMA due diligence standards and will require an auditing system. This could for example mean that miners get their artisanal gold certified according to internationally accepted standards such as Fairmined<sup>17</sup> or CRAFT Code<sup>18</sup>. In Selenge aimag, two partnerships have been Fairmined accredited in 2018 through the support of the SAM project. However, according to these ASM organizations, they have not been able to maintain active mining activities due to COVID-19 restrictions and the Resolution #355.

As seen from the Fairmined (FM) certified organizations in Mongolia, the main issue with maintaining the FM certificate is the cost for third-party auditing and difficulties in selling their mined gold to the international market. Currently, in order to export ASM gold, the entity must have a mining license or go through many documentations, agreements and approvals from BoM and MRPAM. Unlike LSM, ASM organizations usually do not have a formal mining license, therefore, they will need to sign a tripartite agreement with the central bank and the international buyer, agreeing on the main points for selling and shipping, i.e., costs, refining, transport, etc.

It needs to be recognized that compliance with standards or codes can only be expected to be taken up en masse if it leads to higher revenues for artisanal miners, and if due diligence information can be collected cost-effectively in order to prevent renewed black-market activity. There is a volume challenge in this context as well. In this context the administration of due diligence measures for LSM can be vastly cheaper than for ASM. This must be managed in an economically effective way and should not be subject to idealistic thinking. Gold is very fungible and leakage in supply chains will certainly occur if incentive systems are not well designed. This challenge needs to be recognized by international traders and refiners following OECD or LBMA due diligence standards, if they do not only want to source gold from large-scale mining.

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<sup>17</sup> <https://fairmined.org/the-fairmined-standard/>

<sup>18</sup> [https://www.responsiblemines.org/en/2020/10/craft\\_v2-0/](https://www.responsiblemines.org/en/2020/10/craft_v2-0/)

## 6. Access to Finance and Investment

Poorly practiced ASGM can be a source of significant negative social and environmental impacts. However, when conducted responsibly with appropriate environmental safeguards, ASGM can generate significant income and positive social benefits for miners and their surrounding community. For responsible ASGM to serve as an economic catalyst in these communities while avoiding or minimizing negative impacts, the sector requires access to finance that will allow the deployment of cleaner and more efficient technology which will support higher and longer lasting revenues, which ultimately provides financial capital for sound environmental management practices. This is no different for the global industrial mining sector. Mining is expensive and requires a significant upfront investment to enable efficient and clean operations that maximize the natural resources being exploited. In the last decades, technology and policy advances have been made within the ASGM sector, yet strong barriers to formal finance remain (planetGOLD, 2020)<sup>19</sup>.

During the Contextual Study, ASMO leaders were asked about their last investment in their ASM site. Most respondents mentioned small investments such as building fences, setting up the residential zone, and paying for security. Most survey participants (53%) answered that they would upgrade their mining equipment if they had access to financing. One partnership leader explained the need for equipment to improve the recovery rate and hence, the efficiency of the operation:

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“We do indeed need investment. Our partnership has some basic equipment, such as large and small mills and hand hammers. If not for the project, we would be using mercury to extract gold from the ore, because we don’t have a processing plant. Currently, approximately, out of 100 grams of gold, 70% is wasted – we get only the remaining 30%. Gold from placer mines is easy to extract as particles are large in size and can be washed with little waste. But it is complicated to extract gold from hard rock gold deposits because it goes through a mill and comes out in a powder form. It’s quite difficult to wash this powdery substance with water and separate the gold. The only chemical that can amalgamate it is mercury. For more sophisticated processing, we need a proper processing plant.”

Male partnership leader, Khovd aimag

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### Unfavorable Regulatory Environment

An additional barrier for artisanal miners is that current regulations and policies do not support attracting investment to ASM. The limits placed on ASM mining permits hamper investment due

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<sup>19</sup> <https://www.planetgold.org/artisanal-gold-opportunities-responsible-investment-mongolia-0>

to the lack of collateral and lack of confidence in projections of future gold production. Indeed, funds are needed simply to produce the technical reports that are needed by investors to assess opportunities. This also closes equity markets to the miners – the primary source of early-stage financing for junior mining projects. The lack of a system that is able to attract early-stage capital effectively cuts off geological exploration which means that the cooperatives cannot prove geological resources. Investment in mercury-free processing plants, therefore, becomes much riskier due to poor knowledge and low confidence in the amount of ore and the head grade that must be available in order to repay investments. An investor without a geological resource for a project has no idea if the project can return his or her capital, or sustain the operating costs. Plus, at this time an investor is not able to own part of the land, which could be another form of collateral.

### Lack of Financial and Business Skills

An additional challenge for accessing finance is the lack of accounting skills and financial recording practices of miners. During the Contextual Study, 71% of the respondents indicated that they do not keep financial records, and only 11% receive a receipt from the gold buyer (Table 3).

During interviews, gold traders stated that they record the date of sale, the name of the person who sold the gold, as well as the amount of gold and the estimated purity. However, they do not ask where, when, or how the gold ore was mined or processed. The traders tend to register and record their trading activities in their black books, which acts as an unofficial financial statement. While this method is widely used in Mongolia, it often does not provide a record of where traded gold was mined, as well as whether those mines were licensed.

Record keeping of historical gold production and sales is not only important for traceability and due diligence, but is also a critical tool for establishing financial records in order to qualify for access to finance.

Table 3. Percent of miners keeping different types of records by study areas (Contextual Study, planetGOLD Mongolia)

	Bayangol (n=52)	Mandal (n=112)	Tunkhel (n=71)	Yusunbulag (n=62)	Altai (n=74)	Total (n=371)
Records of extracted ore	19%	48%	70%	53%	15%	43%
Records of gold sold	19%	27%	35%	21%	14%	24%
Receipts provided by gold buyer	12%	14%	17%	8%	3%	11%
Financial records	21%	36%	45%	24%	12%	29%

### Access to Loans

There is a growing understanding and recognition of the extent to which an inability to access formal financing channels presents a key barrier to market participation for artisanal miners. Most miners rely on cash loans and payment advances from down the supply chain such as traders and processing plant owners. Without access to working capital to purchase machinery, the effective productivity of ASM sites is restricted. Without access to a secure, regular, and

reliable cash flow, many miners rely on gold traders to repay loans with gold even if the price offered is below market value. The informality of typical ASM partnerships, coupled with the perceived high-risk status of the sector by financial institutions, excludes them from gaining access to basic financial services.

During the interviews, leaders of ASM organizations mentioned that because most miners do not pay social insurance<sup>20</sup>, they cannot provide any proof of income to the bank. Also, because the ASM Regulation prohibits miners from using their ASM permits and land as collateral or shifting their land rights to others, this limits their ability to approach banks as well. In addition, the mining income is considered high risk and not stable. Thus, there is a perception of having no valuable collateral available, a main financial requirement in financial systems required to protect banks from non-performing loans. For instance, one of the ASM organization leaders mentioned:

“I tried to approach the banks for loans, by providing the official documents of our ASM organization registration and income statements. However, they did not deem us as viable for a loan. I think banking institutions need to be informed and provided more knowledge on ASM, its legalization and formalization.”

Female partnership leader, Selenge aimag

Only 3% of miners interviewed during the Contextual Study receive financing from commercial banks (Table 4). A total of 83% of miners answered that they use their own capital to finance their mining operations. According to KIIs, some ASM partnerships collect money from the partnership members to use as starting capital for their ASM operation. A total of 9% of the respondents indicated that gold traders provide financial loans to miners to secure their unofficial buying network in the local area by offering substitute loans to the miners who have been rejected by banks and other financial institutions. Gold traders permit the miners to repay with gold. Gold traders in local areas also work with Ulaanbaatar gold traders and receive large amounts of gold trade financing to leverage their gold buying capacity from the local areas.

Table 4. Financing options for mining operations, by study areas (multiple answers recorded, total=545)

	Bayangol (n=52)	Mandal (n=112)	Tunkhel (n=71)	Yusunbulag (n=62)	Altai (n=74)	Total (n=371)
Own capital	83%	75%	85%	84%	93%	83%
Commercial bank	4%	4%	0%	3%	1%	3%
Non-bank financial institution	4%	3%	3%	5%	0%	3%
Gold traders	12%	12%	7%	5%	8%	9%
Processing plants	13%	8%	7%	3%	1%	6%
Others	10%	18%	20%	23%	22%	19%

20 According the Contextual Study, 36% of all miners pay social insurance on a regular basis (36% for both women and men).

## 7. Conclusion

### 7.1 Gold Trade

The entire gold supply chain is regulated by the Government of Mongolia and the BoM is the end buyer of locally produced gold, mostly through commercial banks, with the FRC starting to license gold traders. However, there is still significant room for improvement in gold traceability and registration to regulate informal gold mining and gold traders in Mongolia.

Currently, Mongolia is not in compliance with international standards and regulations on traceability and due diligence. This will create increasing challenges and risks for Mongolia to continue having access to the international gold markets and banking services. The BoM is not able to provide traceability to the mine of origin for the gold they purchase and export, even though as almost half of the gold is supplied to BoM through individual gold traders. Various stakeholders along the gold supply chain, from government stakeholders to artisanal miners, lack general understanding about the importance and the need of tracing the origin of gold, about gold assay methods and newly approved regulations.

The current Mongolian regulatory policies and practices in the gold trade seem contradictory. BoM purchases gold from traders without asking for traceability. However, FRC is imposing licensed gold traders to record the origins of gold purchased, enforcing the legislation on anti-money laundering and terrorism financing.

In addition, the lack of traceability in the gold trade enables an opportunity for tax evasion. LSM companies are enabled to escape from paying higher income taxes if they sell their gold through individual gold traders. Mongolia does currently not propose any tangible incentives to the stakeholders of gold mining and trade in order to make the sector more transparent, responsible and formal.

Geographical and administrative barriers currently prevent artisanal miners from selling their gold directly to the BoM. In addition to the existing assay service in Ulaanbaatar, the establishment of OSSs in Darkhan-Uul and Bayankhongor aimags was the first step in expanding the official gold buying network into important local gold-producing areas and eliminating illegal gold trade. However, the survey result indicates that there are major barriers that keep traders and especially miners using these centers such as limited number of OSSs, long-distance from mining areas, the 50-gram minimum threshold and delayed payments. This leaves artisanal miners with limited options to sell their gold to formal traders at a fair price. Many miners sell their gold to local traders or processing plant owners, up to 40% below the price offered by BoM.

Overall, the current legislation regulating the ASGM sector, including its formalization process and supply chain, needs to increase its coherence to enable the improvement of the artisanal miners' current working conditions and access to finance, as well as to comply with international traceability and due diligence regulations.

## 8.2 Finance and Investment

Underbanked artisanal miners do not have the option to obtain official bank and financial services due to unstable income, and the perceived risky nature of the sector, which is why they keep relying on gold traders for unofficial, substitute loan services. This further creates a less transparent sub-industry of the gold mining sector. The lack of official access to finance is an immediate barrier to responsible ASGM practices and actively detracts the potential of the sector to serve as an economic catalyst in local ASM communities while avoiding negative impacts.

Current regulations and policies do not touch upon attracting investment to ASM. The limits on ASM mining permits hampers investment due to the lack of collateral. It also closes equity markets to the miners – the traditional source of early-stage financing for mining projects, which would serve miners better than loans due to the risk-sharing mechanism. The lack of early-stage capital effectively cuts off geological exploration which means that the cooperatives cannot build geological resources. Investment in a mercury-free processing plant, therefore, becomes much riskier due to the poor geological data on the amount of ore and the head grade. An investor, without a geological resource for a project, has no idea if the project can return his or her capital. Therefore, geological resource assessments in the form of high quality technical reports elaborating on the size of the available resource are indispensable to de-risk artisanal mining operations, together with other strategies such as formal land titles, to attract banks, financial institutions and investors as financiers.

## 8. Recommendations

### 8.1 Gold Trade

Recommendations on improving gold trade in Mongolia have to tackle existing challenges from two angles: (a) improving existing legislation and law enforcement to comply with international due diligence standards, and (b) improving access of artisanal miners to formal gold traders.

#### Improve Existing Legal Frameworks

- ▶ Current legislation that regulates artisanal mining activities from mining to processing and trading is scattered and not coherent. In addition, there seems to be a lack of coordination amongst the government organizations that regulate the sector for the implementation of the existing regulations.
- ▶ Not being compliant with international due diligence standards such as the OECD Due Diligence guidance and LBMA Responsible Gold guidance further puts Mongolia at risk for money-laundering and imposes challenges to continue having access to the international gold markets and banking services.

#### Provide a Comprehensive Legal Framework for the Gold Supply Chain and Improve Coordination

- ▶ The Government of Mongolia should have a general comprehensive policy document that regulates all of the aspects of the gold supply chain including ASM formalization, gold trade, export, due diligence, taxation, ore processing, access to finance, and others.
- ▶ All government organizations that are involved in the gold supply chain need to have coherence of actions and a common understanding in order to implement the legislation effectively. These bodies include but are not limited to the Ministry of Mining and Heavy Industry, Bank of Mongolia, Financial Regulatory Committee, Mongolian Agency for Standard and Metrology, General Department of Taxation, and Mongolian Customs General Administration. Furthermore, active engagement and cooperation with the non-government stakeholders such as the ASM NF, Precious Metals Association, artisanal miners, gold traders and processing plants are recommended.

#### Implement Due Diligence Standards

- ▶ Mongolia should develop and implement a comprehensive standard for responsible gold mining and trade, with traceability from the mine of origin to the refiner, which complies with international due diligence standards specifically OECD and LBMA guidances. This effort could be supported by the following activities:

- ▶ Due diligence standards and traceability are relatively new topics in Mongolia and many stakeholders along the gold supply chain lack understanding about the importance and obligations linked to due diligence. Hence, central and local government stakeholders, traders, processing plant owners and miners should receive training on traceability and due diligence to increase awareness and compliance knowledge. This should also include training for gold traders on money laundering and terrorism financing by FRC, as this is a requirement by the new regulation to formalize gold traders (Resolution 150, 2020).
- ▶ The Government of Mongolia should build upon already existing good practice examples in the Mongolian ASGM sector (e.g., Fairmined Certification of ASMOs) to learn from their lessons learned, improve already gained experience and promote such practices amongst ASM communities.

### **Improve Access of Artisanal Miners to Formal Gold Trade**

- ▶ Due to various obstacles outlined in this report, artisanal miners are often pushed into the informal gold trade. Resistance to paying taxes, lacking knowledge on OSSs, or reluctance to approach formal entities aggravate the problem.

### **Incentivize Formal Trade of Gold**

- ▶ Selling gold formally will almost always imply more bureaucratic procedures for artisanal miners than selling informally. The key to overcoming this is to provide adequate incentives to sell formally through better access to local assaying services, better regulation of traders to guarantee fair prices, or even suggest incentives in form of tax exemption or reduction for a certain period for formalizing gold trade, and conversely the existence of disincentives to sell informally such as policing the illegal gold trade.
- ▶ A revision of the income tax or royalty fee for artisanal miners might be another mechanism to outcompete the black market. Due to the high costs involved in formal mining operations, income taxes and royalty fees can cause a considerable loss of revenue. Lower taxes or royalty fees for artisanal miners would incentivize formal trade and increase the volume of legal gold trade; in this sense, a smaller tax on a larger volume of legal gold can be more beneficial for the Government than a larger tax on a smaller volume.

### **Increase Capacity of Artisanal Miners on Gold Trading Options and Practices**

- ▶ Artisanal miners should receive training to help understand the bureaucratic process and preparation of records and documents required to sell to the formal market. The training should also cover gold assaying methods, international and national gold pricing, as well as taxation for miners to gain a better understanding of how much they can get for their

gold when complying with regulations, compared to the informal market. The assay training could be supported by the FRC and the Assay Inspection Department.

- ▶ The ASM Knowledge Hub<sup>21</sup> could be used to provide information on national and international gold prices to increase knowledge and bargaining power with traders. This also includes training on prerequisites for selling to BoM and OSSs (see below).

### **Reduce Bureaucratic Barriers to Sell to BoM**

- ▶ With the limited numbers of OSSs in the country, accepting private assay results could increase and expedite formal gold sales. The newly drafted Law on Treasury Fund could act as a way to decentralize and liberalize assay services as well as the gold trade process in rural areas.
- ▶ It is recommended that a strategy to educate and incentivize the traders to apply for a gold trading license and sell to the BoM should be a priority in Mongolia's efforts to capture a larger share of the ASM gold supply.
- ▶ The BoM should make efforts to reduce the waiting time caused by PMAID retaining gold samples, by increasing its export frequency. Another solution could be using an accredited local laboratory to do the testing that is acceptable to PMAID, BoM and the refiner.

### **Improve Availability and Accessibility of One-Stop Services.**

- ▶ It is recommended to increase the number of OSS centers in gold-producing regions.
- ▶ There is a need for capacity building and information campaigns about the benefits of selling gold to OSS or to BoM as well as the required documentation, about its goal to decentralize and simplify the gold trade through OSS, taxation measures, etc. Because of lack of information, miners are hesitant to go to these centers.
- ▶ It also is recommended to look into possibilities to assay gold lower than 50 grams, establishing for example a threshold of 10 grams instead. Introducing flexible pricing for assaying different volumes of gold could help with removing this barrier.

### **Regulate Gold Trade at Processing Plants**

- ▶ The report shows why the authorities should place special attention on regulating the processing plants and incentivizing them to sell to the BoM (see also planetGOLD 2022, policy report on legal frameworks). It is recommended that any gold trading formalization strategies should include the processing plants as a key actors. Creating incentives for the processing plants that perform due diligence, implement traceability to the mine or origin,

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21 The ASM Knowledge Hub is a web-based platform with objectives to convene and enable ASM stakeholders to create and share knowledge, experiences and solutions. The Sustainable Artisanal Mining project, Swiss Agency for Development and Cooperation in Mongolia (SDC), initiated and funded the development of this platform in 2017. <https://asmhub.mn/en/about>

and sell formally could be an efficient strategy. This is aligned with the strategies of many other gold trading jurisdictions which have placed the burden of formalizing the gold trade, due diligence and traceability on the major bottleneck actors in the supply chains, such as major exporters, processing plants and refiners. Since the processing plants have greater economic resources and in general also capture a disproportionate share of the gold value in the supply chain in comparison to miners, they have a greater resource capacity to implement these policies.

## 8.2 Finance and Investment

Responsible mining that is compliant with international due diligence standards is difficult to achieve without adequate access to finance for artisanal miners. Recommendations include policy revisions for a better investment climate, as well as capacity building among investors and artisanal miners to increase their ability to assess risks (financiers) and provide documentation to support the process (miners).

### Improve the Legal Environment for ASGM Investment

- ▶ As it is difficult to get bank loans for ASM projects, one of the main ways to attract investment into ASM projects in other jurisdictions is selling shares or royalties in return for financing. This approach, contrary to loans (debt) also represents a shared risk model where both the miners and the financier are taking on some of the operational risk. This is desirable in many situations. A failure in this context does not leave the miners in default with a permanent bad credit record for example. However, the current Mongolian ASM regulations limit the attraction of foreign and national investment into this sector. It prohibits miners from using their ASM permit and land as collateral or shifting their land rights to others. Creating an investment-friendly legal environment is crucial to fulfill the main objective of the ASM Regulations, which is to develop a responsible and professional ASGM sector, increase employment and reduce poverty in local communities while protecting the environment.

### Develop Curated ASGM Financial Information for Financial Sector Actors

- ▶ Proper investment and access to finance are some of the most important factors for developing and maintaining responsible ASM. Thus, it is important to provide relevant information to financial institutions and possible investors (i.e., impact investors) about the risks, e.g., overlapping claims, permits, etc., and elements that affect return on investments, e.g., plant capacity and throughput, gold recovery, gold reserves, etc. In addition, key data for the financial sector to assess investment risks also includes formalization status, gold supply chain and the peculiarities of this sector.

## Improving Access to Finance for Responsible ASM

- ▶ It is recommended for the government to incentivize miners and traders through developing a special ASGM program aimed at improving access to finance, increasing formal gold supply and enabling responsible ASM. Involving gold traders, who have already formed informal lending networks with miners, in this program is recommended. At the same time, artisanal miners need to receive training on business development, record keeping and current legal frameworks governing the ASGM sector to gain trust from financial institutions.

