

## Illicit finance risks associated with the extraction of natural resources

Extract from NCA Amber ALERT of March 2021 (Reference 0641 - NECC)

### Overview

This summary sets out the illicit finance risks associated with the extraction of natural resources. The extractives industry is exposed to high levels of bribery and corruption risk, evidenced by numerous prominent mining companies implicated in both current and historic criminal investigations involving the bribing of public officials, market abuse, price fixing, sanctions breaches, and theft of state property.

### Risk characteristics of the extractives industry

- **Jurisdiction** - Mining companies favour incorporation in low risk jurisdictions such as Switzerland, Netherlands, Canada, UK and Australia with management headquarters in the financial centres of those countries. They also tend to list on the LSE's AIM or TSX. However, their mining operations predominantly take place in higher risk jurisdictions in Africa, Latin America, the Middle East and Central Asia. Firms should take care when risk-assessing mining companies and be sure to consider all the jurisdictions associated with the business, and not just the country of incorporation and/or management headquarters.
- **Prominent public sector involvement** - Extractive projects are often issued by direct government tenders or are structured as joint-ventures between private companies and the State. Tender processes are often opaque (either deliberately or due to a lack of legislation or accountability frameworks) resulting in greater bribery and corruption risk as private companies vie for access to lucrative, yet finite resources.
- **Environmental degradation and human rights abuses** – The UN has identified a correlation between the extractive industry and environmental degradation and human rights abuses. This includes forced removal of indigenous communities from lands, forced labour, child labour, violence against workers and unsafe working conditions. Firms should consider the risk associated with the entire supply chain of their client and consider whether any environmental crimes and modern slavery risks exist.

### Red flag indicators

The following red flag indicators are common indicators. They may reflect legitimate business on their own, but the risk increases when more than one red flag is present.

- Involvement of public officials or PEPs in the tender/auction process, or in the company itself;
- Excessive gifts, stipends or trips (including family members) as part of the tender/auction process;
- Officials involved in the tender process who do not hold a relevant public role;
- Unexplained corporate payments made to unknown third parties or individuals;
- Complex, multi-layered ownership structure, which appears out of keeping for the client or transaction;
- UBO is a large corporate entity without the relevant expertise or experience;
- Lack of evidence of fair and transparent tender process, and lack of change in suppliers;
- Source of wealth derived from high risk business activity;
- Company subject to criminal investigations and/or adverse press about sanctions breaches;
- The exchange of shareholding in a company for access or influence in mining sector;

### Suspicious Activity Reporting [SARs]

If you know or suspect ML or TF activity you should make a SAR and include the alert reference **0641-NECC** within the text *in addition* to the ongoing use of the Glossary of Terms. Guidance on reporting is available at: [www.nationalcrimeagency.gov.uk](http://www.nationalcrimeagency.gov.uk)

### Data Protection Considerations

Please consider your obligations under the relevant data protection regulations and where necessary remove any related personal data from your systems securely and within a satisfactory timeframe.

### Disclaimer

The Accountancy AML Supervisors' Group (AASG) accept no responsibility for any loss, damage or expense arising in connection with the use of information in this alert. Any use will be taken to signify agreement to these conditions.