

The Global Observatory of Transnational Criminal Networks

Gold Trafficking in Colombia and the Andean Region

No. 2

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The facts and the analysis presented herein are sustained in documents and interviews exposed in mass media and judicial records related to the criminal networks analyzed. No primary information uncovering facts has been gathered, which means that only secondary sources were consulted, from legal to media documents. In the case of the names mentioned, quoted or referenced on indictments—with the exception of those specifically mentioned, quoted or referenced in the text as definitively condemned-, the presumption of innocence, in observance of individual rights is always preserved.

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Introduction

All the countries located in the Amazonian Basin are related to the illegal mining phenomenon. It has been reported that illegal mining activities have heavily expanded across the entire region in the last two decades, in a context in which the prices of the international commodity have also increased. Although most of the illegal smuggling is happening in the borders of the Andean countries, there is no evidence of strong government coordination to fight against this scourge.

The objective of this document is to present relevant descriptive information about the gold trafficking with especial emphasis in the Andean region, and Colombia in particular. The information is organized in three parts: (i) Key criminal agents relevant in gold trafficking; (ii) key criminal hotspots referred to origins, routes and destinations of gold trafficking with emphasis on Peru, Colombia and Bolivia, as well as the criminal activities related to this illegal market; and (iii) relevant recent cases covered by the media.

1. Key Criminal Agents

Large companies with mining titles and environmental and human right commitments execute most of the large-scale mining in Colombia. However, around 87% of the gold mining in Colombia is illegal and unregulated, executed without mining titles, and 70% is practiced on a small or medium scale. These illegal and unregulated operators cause major negative impacts in the economy and the environment because they use heavy machinery, dangerous chemicals and explosives. Not all the informal mining is criminal, but its informal character facilitates the gold illegal and even the criminal trafficking.

The legal mining system in Colombia does not exhaustively define and differentiate the kinds of mining and the agents involved in gold mining. As a result of this conceptual and legislative problem, small miners are sometimes treated as criminals or larger miners pose as small ones to avoid legal consequences for using heavy machinery and working illegally. Although countries like Peru, Bolivia or Brazil have high levels of gold production and illegal mines, perhaps the most noticeable fact in Colombia is the close relationship between gold trafficking and the armed groups. As it will be shown below, it is possible to identify five types of agents participating in the production and commercialization in Colombia, including the illegal and criminal ones.

Level 1 – Small and medium scale miners. “*Barequeros*” are miners who work in small, medium and large exploitations by using simple tools and hand-operated implements. The “*barequeros*” are part of traditional and artisanal mining, usually undertaken for their basic livelihood. “*Barequeros*” typically congregate around large-scale mines, in areas where legal and large companies operate, in order to take advantage of materials and residues left by these companies. On the other hand, the medium scale miners usually have larger land properties than the “*barequeros*”, which allow them to work in their own mines, where heavy machinery and not environmental friendly tools are utilized.

Both small and medium scale miners usually extract and commercialize the gold illegally, but not as the criminal mining, because they do not possess legal mining titles. Actually, sometimes they belong to organized cooperatives where the gold is collected and sold to national trade companies.

The criminal exploitation and traffic of gold occurs when the mines are controlled by armed groups (by extortion) or when the medium-scale miners ally with armed groups in a “win-win” context where illegal medium miners sell them the gold. In this sense, although not all the “*barequeros*” and medium scale miners are criminals, their informal activity facilitates the criminal traffic of gold.

Level 2 – The gold cooperatives. These cooperatives are composed by small and medium miners and by small gold trade houses located near exploitation zones. The cooperatives collect the gold that their miners extract, to sell it to different national trading companies located in cities such as Cali and Medellin. Some cooperatives contribute to the trafficking of criminal extracted gold by intermediating gold extracted in mines that belong to armed groups or when the gold is obtained by extortion to legal miners. The process of introducing criminally extracted gold into the legal economy mainly consists on some cooperatives buying gold to third parties (i.e. drug traffickers or armed groups). Thus, the production of gold by these cooperatives usually seems larger than the extracted gold because they also report gold that was not produced by their miners. Since the cooperative manages the financial accounting, it is possible to “adjust” the accounts.

Some cooperatives involved in illegal gold mining are “Coofminercol” and “Coomineros de Buenos Aires”. “Coofminercol” has associates located in the towns of **Suarez** and **Timbiqui** in the *Cauca* department; the towns of **Barbacoas**, **Santa Bárbara de Iscuandé** and **El Charco**, at the *Nariño* department; and the city of **Buenaventura** at the *Valle del Cauca* department. Meanwhile, the miners of “Coomineros de Buenos Aires” are located in the *Cauca* department.¹

Level 3 –Armed groups and drug traffickers. There are three ways in which armed groups and drug traffickers participate in gold trafficking.

- (i) The FARC guerrilla and *neoparamilitary* groups² control informal gold mines through extortions. They charge the operator for using the machinery, for entering fuel, for the volume or weight of the extracted mineral and also for allowing the miners to work.
- (ii) The FARC guerilla also establishes alliances with illegal miners not only in Colombia but also in the borders of the Colombian Amazonas with Peru -through the Putumayo river- and Venezuela. This guerrilla buys the gold to illegal miners, provides them security and protection against the national military operatives and also provides them logistic support by providing explosives and heavy machinery.
- (iii) Armed groups and drug traffickers buy the gold to informal miners even at prices above than those offered by final recipients like the Bank of the Republic³, or they obtain it by exploiting the mine directly. These criminal groups are involved in the extraction of the mineral, in the transport of chemicals that are used in the process, and even in its marketing. The drug traffickers also import mining machinery bought with drug trafficking dollars and import smuggled gold from countries such as Ecuador, Venezuela and Panama, to pass it off as mine production front. Through this strategy the drug trafficker or the armed group

¹ El Espectador (2015) Piden investigar otra empresa lavado de activos a través de exportación de oro. Available in: <http://goo.gl/LoC2oG>

² The *neoparamilitary* groups formed after the most important paramilitary group that has operated in the recent history of Colombia, the United Self-defense Forces of Colombia (in Spanish: Autodefensas Unidas de Colombia) demobilized in 2006.

³ In Spanish: “Banco de la República”, Colombian central bank.

declares the metal as part of a legal mine, therefore laundering their illegal money. A significant fact is that while in the past guerrillas and criminal bands (specially formed paramilitary groups) were absolute enemies, nowadays they have nonaggression pacts, which means that they are working together to extract gold in places like Choco and Antioquia departments.

Level 4 – The national trade and smelters companies. These are companies located in strategic geographic positions like the cities **Cali** and **Medellin**, searching for small and medium gold suppliers like unorganized artisanal miners. These companies have encouraged the creation of more than a dozen mining cooperatives in several departments, including *Nariño*, *Valle del Cauca*, *Cauca*, *Antioquia*, *Chocó* and *Risaralda*. In order to trade the gold, the trade companies promote the cooperatives instead of directly owning the mines. This is a way to avoid the legal consequences in those cases where the extraction of gold is realized in a criminal context. Some gold trade companies that have bought the gold from dubious sources in the Pacific Coast are “Fundición Ramírez S.A.”, and “Giraldo & Duque”; and in *Antioquia* department are “Fundiciones Escobar” and “Goldex”.

Level 5 – The international gold companies. The “London Bullion Market” (U.K.), the “Republic Metals Corporation” (United States) and “Metalor Technologies” (Switzerland) are the main international and official gold agents that have been involved in the traffic of gold. Given the importance, scale and transnational complexity of the illegal gold trafficking, it is too difficult to state if the international companies have bought gold extracted by illegal or criminal means.

As described above, armed groups, drug traffickers and some cooperatives operate at the base of the trafficking gold business. Cooperatives are supposed to only sell the gold that was produced by their associated miners in mines legally supervised. However, these cooperatives sometimes buy gold from legal sellers like unorganized “barequeros”, or from criminal ones like FARC emissaries. When the illegal or criminal gold is declared as legal in the accountability of the cooperatives, tracing the origin and source of gold becomes conveniently diffuse. Nevertheless, the companies listed above have been involved in scandals of gold trafficking although their participation in the illegal chain has not been proved.

2. The criminal market

The flow of gold trafficking is not limited just to private national and international companies and to the miners who participate in the illegal mining by helping to fund criminal organizations. There are also other relevant agents, sometimes operating from lawful and official sectors, who benefit from the illegal traffic of gold. Similar schemes can be identified in various Andean countries where corruption and institutional weakness is a constant.

Corrupt government officials. These are officials located in specific municipalities usually affected by armed conflicts, especially in Colombia. These officials have established agreements with armed groups and drug traffickers to allow them use the institutional framework of the towns for money laundering purposes. Sometimes, these agents have also accessed and appropriated themselves the gold royalties transferred by the Colombian state to townships. It is necessary to insist that illegal and criminal mining is practiced especially in bordering and periphery zones where institutional weakness and corruption are aggravated.

Corrupt police members. Some corrupt policemen inform to armed groups about the operations executed by Armed Forces against illegal and criminal mining. Besides, they require fuel to miners as a condition for allowing them to work. The fuel is then sold by the policemen to dubious sources to be used for the operation of backhoes and dredges. If there is a leak of information and the corrupt police members are exposed, the fuel can be also reported as a positive seizure to senior officers. Criminal networks that need to smuggle the gold worldwide also request collaboration of officers located at the borders, by paying direct bribes.

Planes pilots and car drivers. These are the drivers that transport the illegal gold from the production zones to the cooperatives in the buying gold points, usually located in the riverbeds and towns, or to the trade companies located in cities like Cali and Medellin.

Foreigners. They come from a wide range of countries involved in illegal mining, and they usually arrive to organize local communities to work in mines. They bring technology forbidden by the authorities because of its environment damages. Therefore, they transfer

knowledge about illegal exploitation techniques, since these individuals have also been involved in the illegal exportation of metals abroad.

3. Key criminal hotspots

It is impossible to track the gold trafficking path without taking into account that agents involved in criminal mining need regional and international associates. Bearing this in mind, this section describes not only the illegal gold routes in Colombia, but also the connections between the Colombian, Peruvian and Bolivian gamers. It is noticeable, for instance, the link between the drug trafficking and the illegal mining in the Amazonia: Although it has not been enough widely reported, it seems like Brazilian drug traffickers are buying lands and heavy machinery to undertake illegal mining and launder money not only in Colombia, where this is common practice, but also in other Andean countries.

Origin

Colombia

In the departments of *Santander*, *Valle del Cauca*, *Antioquia* and *Atlántico* there are several origin points in Colombia, where illegal gold production is observed. *Santander* sends the gold to Falkland Islands, *Valle del Cauca* to Italy, *Antioquia* to Panama and *Atlántico* to the United States. Since guerrillas and criminal neoparamilitary bands currently establish nonaggression pacts, the FARC usually associates with drug traffickers to buy the illegal gold production to small miners or to exploits their own mines in remote rural areas. Meanwhile, former paramilitary groups and criminal bands known as “BACRIM” do exactly the same in zones around urban towns where they fund the metal’s exploitation, participate in gold buying at the centers and launder drug trafficking money.

It has been too hard for Colombian military forces to identify and report those criminal mines or informal mines connected to armed groups. The gathered information identifies some towns and municipalities involved in gold trafficking, but no specific mines have been reported. As explained in the previous Facts Document, the most known route is related to the wooded area of difficult access in *Bajo Cauca*, in *Antioquia* department: the metal is extracted from mines around the towns **Ayapel**, **Cáceres**, **Tarazá** and **Nechí**, and then it is

transported to the cities town of **Caucasia** and **Medellin** to be melted into ingots. In the last stage, the latter are sent to Panama, United States and Europe.

In Chocó department, the towns with the major gold production are **Novita**, **Union Panamericana**, **Istmina**, **Quibdó**, **Tadó** and **Sipí**. Criminal armed structures operate in those towns where the gold production increases depending on the international price variations. This means that, if there is a price or extraction boom in a town without criminal control, it is rapidly occupied, especially by the criminal band known as “Urabeños”.

Besides *Chocó*, in the Pacific Coast, *Cauca* and *Nariño* are other relevant departments. In *Cauca* it has been reported illegal mining in **Buenos Aires** and **Suarez** towns. In **Suarez** illegal mines exist in the district of **La Toma**, where armed groups dispute the gold illegal mining in the **Ovejas River**. In **Buenos Aires** the illegal mining is controlled by the criminal band known as “Aguilas Negras”, and by the FARC guerrilla through extortions. Other towns involved in illegal and criminal mining are **Santander de Quilichao**, **Caldono**, **Timbiqui** and **Guapi**.

Similarly, in *Nariño* department, the case of the **Barbarcoas** town excels. Heavy illegal machinery is entered into this town where illegal mining is practiced in the rivers of **Telembí**, **Telpe**, **Guelbandi** y **San Miguel de Nambí**. The “Usuga Clan” is the main criminal band (“BACRIM”) that controls the illegal mining in this zone. In the department of *Valle del Cauca*, the towns with illegal and criminal gold mining presence are **Zaragoza**, **Buenaventura** and **San Cipriano**. In the department of *Bolívar*, the town of **Santa Rosa** registers activity of FARC and ELN guerrillas. In the department of *Magdalena*, the town of **Ciénaga** registers presence of the criminal band (“BACRIM”) known as “Los Paisas”.

Bolivia

There are four important Bolivian departments in which the illegal gold is exploited: *La Paz*, *Pando*, *Beni* and *Santa Cruz*. While *La Paz* and *Pando* border with Peru, the departments of *Beni* and *Santa Cruz* (and also a part of *Pando*) share borders with Brazil. Because of their geographical proximity to Peru and Brazil, in these Bolivian departments the gold is easily smuggled.

In *La Paz* department, town of **Pelechuco**, a river separates Bolivia from Peru. This town concentrates most of the illegal gold production, where the gold is illegally commercialized in the Chejepampa Carnival⁴. In this Carnival (“Feria”), Peruvian buyers install around 50 posts to buy the gold to Bolivian illegal miners. The latter prefer to offer their gold to Peruvians because this carnival is a closer place to travel, compared to the 10 hours it takes to travel to **La Paz** city. When Peruvian buyers get the gold in “Feria de Chejepampa”, they transport it into their country for selling it to Peruvian gold companies without paying the border prices.

There is another form of smuggling: Peruvians buy the gold in the Bolivian Chejepampa Carnival, then they melt it in ingots and finally it is reintroduced to Bolivia to be exported to international markets.

In the *Santa Cruz* department, the town of **San Ramon** is another smuggling point. According to the League for the Defence of the Environment⁵ in Bolivia, some foreigners, especially Brazilian, are extorting Bolivians in **San Ramon** and in **San Simon** (*Beni* department) to displace landlords and therefore being free to exploit gold without paying taxes⁶. Brazilian drug traffickers have been laundering money in the gold exploitation zone of *San Simon*. In another strategy, Brazilian rescuers buy gold directly in **San Ramon** to sell it latter in Brazil.

Peru

Madre de Dios, *Puno* and *Cusco* are the major gold extraction departments in Peru. **Huepetuhe**, **La Pampa** and **Mazuko** are gold districts located in *Madre de Dios* (Amazonia region of Peru), known as the heart of illegal mining in Peruvian territory. **La Rinconada** is the main gold center in *Puno*, while in **Cusco** the most relevant exploitation gold areas are the “Cumbrera” and “Quince Mil”. It has been reported that Colombian, Chinese and South Korean people direct criminal gangs that exploit Peruvians and Ecuadorians in some mines of these gold districts.

⁴ In Spanish: “Festival de Chejepampa”.

⁵ In Spanish: *Liga de la Defensa del Medio Ambiente*

⁶ La Razon (2012). *El contrabando de oro al Perú se nutre en la feria de Chejepampa*. Available in: <http://goo.gl/PXI0t2>

Because of the strong government measures against the illegal gold mining, the smugglers have created new strategies to transport the gold from Peru to Bolivia, to be then exported to international markets: the gold is transported by human mules, armored cars and planes from **Desaguadero** and **Tilali** -near to Titicaca lake- to **La Paz**, and from **La Rinconada** and **Suches** to **Cobija** city in the *Pando* department, in the Bolivian Amazonia. In the *Pando* department, the gold is sold to Bolivian trade companies for exporting it from **La Paz** city to the United States and Europe⁷. Meanwhile, in the Peruvian and Brazilian connection, the construction of hydroelectric power and communication routes in **Rondonia** (Brazil) and **Madre de Dios** (Peru) has increased the illegal mining. In the context of this route, there are three main agents involved in gold trafficking: the “lords” of the illegal mines, the exporting gold companies, and the international markets:

- **Lords.** Some of the big clans that fund illegal mining are (i) the “Baca Casas” clan in **Huepetuhe** and **Inambari** extraction zones at *Madre de Dios* department, composed by Cecilio Baca and his wife Gregoria Casas, and (ii) “Los Torres”, a clan with illegal operation in **La Rinconada** gold zone in department of *Puno*.
- **Companies.** There are 60 exporting gold companies in Peru that have been related to illegal mining in the departments of *Madre de Dios*, *Cusco* and *Puno*: they have bought tons of gold of illicit or unregulated origin by using front men in shell companies and there are money laundering investigations and suspicious financial operations due to the seizure of ingots and cash. Three exporting companies, “Darsahn”, “Axbridge Gold” and “OxfordGold”, head the list of 60 companies. This list is also composed by some corporations funded by Pedro Pérez Miranda alias “Peter Ferrari”, accused for drug trafficking and money laundering in the 90s. Although Pérez does not appear in legal constitution documents of these companies, it is known that he operates behind “Minerales Rivero”, “Minerals Gold MPP”, “Minerales La Mano de Dios” and “Sumaj Orkro”. The profits from drug trafficking are used to buy gold, mainly in jewelry or ingots, which is transported through the borders or sold by exportation transactions.
- **International market.** The three national exporting companies heading the 60 list are related to Axbridge Corp, an international company located in the British

⁷ Reuters (2014). Lucha contra minería ilegal de oro en Perú crea nueva ruta de contrabando por Bolivia. Available in: <http://goo.gl/DkoU6R>

Virgin Island.⁸ Other international companies where the Peruvian gold is exported are: (i) Metalor Technologies, MKS Finance and PAMP refineries in Suiza, (ii) the Republic Metals Corporation and the Northern Texas Refinery in United States, (iii) Italspreziosi in Italia and (iv) Kaloti in Dubai.

Destination

As it has been explained, the main destinations of the illegal and criminal gold in Colombia are, in relevance order, the Falkland Islands, Italy, Panama and United States. In the United States the refining companies also import large amounts of gold from Colombia and Peru, not only by formal means but also by the gathering informal mining production, which gets formalized in the processing and commercialization stages. The routes of commercialization of illegal gold are dark and therefore difficult to track and control, but it is important to point out that in the case of the countries involved in Amazonian illegal gold, the most relevant destinations are the United States and Switzerland.

Access and control by domestic enforcement agencies is difficult in the zones where the gold is produced, and that's why it is transported between countries without any legal control until arriving to cities such as **Bogota** in Colombia or **São Paulo** in Brazil. Then, this gold, or its value, is incorporated into financial markets in the United States, Canada and Europe. During the stages of extraction and trading, a large part of the metal is melted with legal gold and its illegal records are lost.

4. Relevant Recent Cases

The "Girlando & Duque" Company

The company "Republic Metals" from the United States is one of the biggest gold buyers in Colombia, as well as "Metalor" and "Argor-Heraeus" from Switzerland, and "Johnson Matthey Gold" and "Silver Refining Inc" (Johnson Matthey US affiliate) from the United Kingdom. All these enterprises are associated with the "London Bullion Market Association" (LBMA) and they have been involved in processes of money laundering and the immersion of illegal gold into the legal economy.

⁸ El comercio (2014). *Alarmante perfil de riesgo de exportadoras*. Available in <http://3.elcomercio.e3.pe/doc/0/0/8/2/4/824123.pdf>

The national company “Giraldo & Duque” sells gold to some of the international companies listed above and offers the commercialization of precious metals. This company also has a private security company named “Latin American Security”, as well as two cooperatives of small miners, “Coofminercol” and “Mining Company”, and an investment company, “SAS Builes Duque” whose main business consists on leasing machinery such as backhoes for construction. The cooperative “Coofminercol” has associates in the towns of **Suarez** and **Timbiqui** (Cauca department), **Barbacoas**, **Santa Barbara de Iscuande** and **El Charco** (Nariño department), and **Buenaventura** (Valle del Cauca). “Duque & Giraldo” also manages the “Sociedad Minera del Sur”⁹ and the “Sociedad Minera El Danubio”¹⁰ that operate in the mines “La Puchis” and “El Danubio” in the **Buenos Aires** town (Cauca department). Around a 90% of the gold purchased by “Coofminercol” is sold by third illegal or criminal parties.

The cooperative “Coomineros de Buenos Aires” associates workers in the **Teta** and **Ovejas** rivers: “15 backhoes were installed in the upper river, belonging to a man nicknamed “El Mexicano”. These backhoes, like the two that are located on the River Mazamorra in the same municipality, have armed civil protection”.¹¹ The manager of “Giraldo & Duque” stated that he does not know about “El Mexicano”. To sum up, these cooperatives are located in towns where several conflicts and accidents in mining exploitations have been reported, as well as the presence of armed groups, and the execution of extortions, homicides and mobility restrictions.

The “Goldex” case

In 2014 the exporting company “Goldex” sent more than 310 tons of gold to Republic “Metals Corporation” (United States) and “Metalor Technologies” (Switzerland), both companies associated to the “London Bullion Market Association”. In the same year, John Hernández Silva, owner of the company, was captured for laundering COP \$2,3 billion. Apparently, some town halls and departments also benefited from this money, but investigations just began this year and conclusive information is not available yet. However, the verified

⁹ In English: *South Mining Company*.

¹⁰ In English: *Mining Company “El Danubio”*.

¹¹ La Silla Vacía (2014). *Siguiendo la ruta de la minería en el Cauca*. Available in: <http://goo.gl/YyD0x6>

information allows concluding that the structure of Goldex, as a company, never existed: false suppliers were used and front companies created with dead name people.

John Hernandez was also captured for allegedly funding armed groups. The investigations have also shown that there are ties between “Goldex” and Jairo Rendon aka “German Monsalve”, who is the brother of a famous drug trafficker, Daniel Rendon, the head of “Los Urabeños” criminal band¹². Other exporting companies were investigated, particularly those located in **Medellin** and **Cali**, in Colombia, because these cities are located close to main mining centers.

Bajo Cauca (Antioquia, Colombia) and the criminal gold mining

It has been reported that FARC guerrilla has an inventory of mines, miners, machines, materials and fuels across the **Bajo Cauca** area in the *Antioquia* department, especially in the towns **Zaragoza** and **El Bagre**. In those places the FARC guerilla extorts:

- For installing a backhoe in a gold zone: COP \$5 million per month (US\$1793).
- For allowing operation of machines: COP \$2 million (US\$717).
- For every gallon of fuel that enters into the exploitation area: COP \$3 thousand (US\$1.08).
- Workers are also extorted: a “barequero” can earn every month COP \$1 million, but he or she must pay one Castilian weekly (4,8 gold grams), which means COP \$320 thousand (US\$114)¹³ or they must give to the FARC five grams from every 100 gold mines exploited¹⁴.

Timbiqui (Cauca, Colombia)

The gold mines located in the **Timbiqui** town are controlled by the FARC. The 29 and 30 fronts of this guerrilla patrol the daily production, regulate the price that the local buyers must pay and register the cash incomes. Apparently, in community meetings the FARC distributes 14% of the sales to the land owners where the gold was exploited and 2% to some Community Councils, in order to invest in local aqueducts and road paving; however, there

¹² El Colombiano (2015). *Políticos y grupos armados se habrían beneficiado de lavado de activos de Goldex*. Available in: <http://goo.gl/cGfzsZ>

¹³ El Espectador newspaper (2012). *Las rutas del contrabando de oro en Colombia*. Available in: <http://goo.gl/W0q0vH>

¹⁴ Semana journalistic magazine (2013). *La plata en las minas de oro*. Available in: <https://goo.gl/4P4UFJ>

is not official control on these apparent investments.¹⁵ The *de facto* control achieved by the FARC guerrilla in this area, as in other regions, is the result of the weakness and lack of presence of official institutions. Like the previous mentioned cases, there is a constant lack of official information, but various testimonies gathered by local journalists at Colombia.

¹⁵ *Ibid.*