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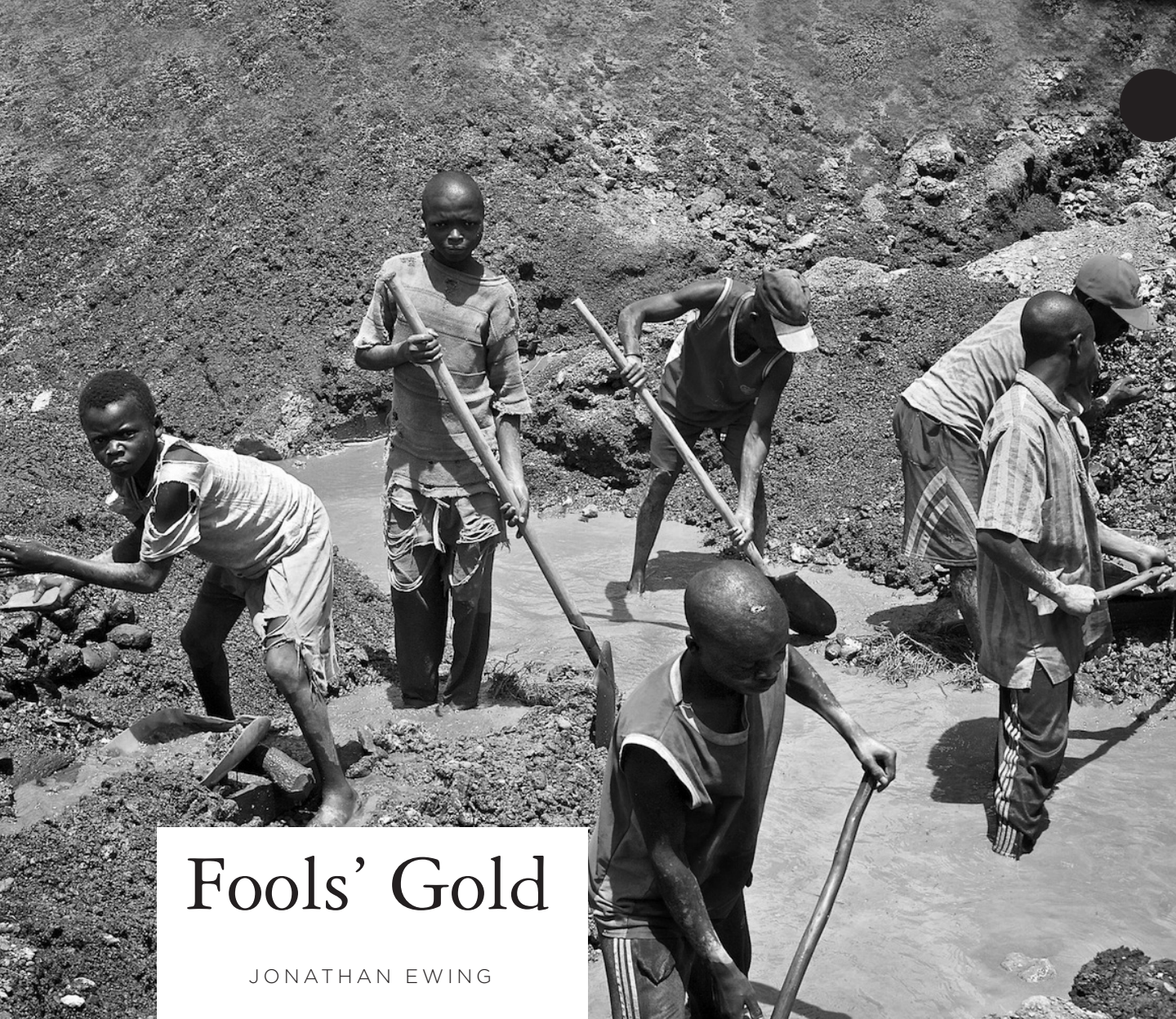
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Fools' Gold

JONATHAN EWING

KINSHASA, Congo—Joachim Andersson owned and operated a string of failed businesses before he founded Mineral Invest and began mining for gold in eastern Democratic Republic of Congo. During the 1980s, Andersson worked as a pastry chef at an all-night café in a Stockholm suburb. It was the kind of place frequented by taxi drivers and prostitutes. Stolen goods were fenced in the café, and Andersson learned about precious metals. During the 1990s, he began dealing in minerals from Africa,

and he was sentenced to five years in prison for tax evasion relating to importing gold.

But in 2012, he was free and living in the Congolese capital, Kinshasa. From his office in a high-end villa in Gombe, the diplomatic district of the city, Andersson describes himself as a big-picture man. “The details are for other people,” he says. His colleague and best friend, the nephew of a governor during the rule former dictator Mobutu Sese Seko, laughs. But as it turns out, attending to details—at the company’s front office in Kinshasa and at

its mine more than 1,000 miles away in the Congo River basin—would have saved Andersson a lot of trouble.

A LOT MORE TROUBLE

In March 2013, Jonas Falk, a friend and associate of Andersson, was convicted of trafficking more than \$600 million worth of cocaine into Europe. Falk’s aunt, who was a Mineral Invest shareholder, was convicted of laundering a portion of the cocaine money through the company. Andersson and former chief operating officer, Jonas Eriksson, left the company shortly after Swedish media reported on the link connecting Falk, Andersson, and Mineral Invest.

Indeed, small so-called junior mining companies, such as Mineral Invest, have played an outsized role in facilitating the corruption in Congo that fuels poverty and finances continued conflict—particularly in the east of the country. Many of these junior extractive companies are traded on small alternative bourses, such as the London Stock Exchange’s Alternative Investment Market (AIM) or the Aktietorget in Stockholm. Analysts and watchdog groups suspect these junior bourses are havens for crooked businesses operating in remote parts of the world, where regulation is less developed. Small exchanges like these can be used as discreet places to launder millions of dollars in conflict assets.

Dan Gertler, a diamond businessman from Israel known for his close ties

to Congo’s President Joseph Kabila, has allegedly founded or headed a number of junior extractive companies traded on the AIM exchange. Gertler stands for much that is wrong in the Western rush for precious minerals in Africa. Critics say Western companies extract resources and profits, while leaving the locals with nothing. President Kabila, whose authority is being challenged in eastern Congo where much

of the mining is done, has sold Gertler the rights to mines at bargain basement prices for many years. Gertler then sells them to Western—often British—companies at a huge profit.

Junior mining companies are small, nimble organizations that often operate below the radar and can be very difficult to police. Some are legitimate businesses, run by honest people. But many are shell companies for money

laundering or weapons, drugs, and mineral smuggling. There are hundreds of them in Congo, and none are likely to be hurt much by the conflict minerals provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires companies to perform an independent due diligence on the chain of custody of the minerals. The same applies to the similar legislation on transparency and corruption pending in Brussels where the European Union has agreed to adopt the Accounting and Transparency Directives, which will require oil, gas, mining, and logging companies to disclose annually the payments

CORRUPT SMALL COMPANIES ON ALTERNATIVE EXCHANGES OR PRIVATELY OWNED COMPANIES CAN EASILY EVADE DODD-FRANK AND PENDING EU LEGISLATION.

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they make to governments for access to natural resources in all countries where they operate. As legal instruments, they are too blunt to change the complicated patterns of corruption in Congo or in other resource rich and ill-policed countries.

Typically, a large number of junior mining companies have been involved in complicated buy-and-flip schemes and opaque joint ventures featuring anonymous payouts worth millions of dollars. Mineral Invest fits neatly into several of these categories.

For Mineral Invest, the trouble arguably became noticeable in 2011, when officials signed a joint venture agreement with the Congolese state-run mining company Société Minière de Kilo-Moto, or SOKIMO, creating a Congolese subsidiary. The contract was problematic, because it, among other problems, featured payouts to an anonymous Congolese entity that was not signatory to the agreement. Still, in Kinshasa, the signing was widely praised. National media described the joint venture as an investment in Congo's future, even though the company is controlled entirely through its headquarters abroad. SOKIMO is happy, because the joint venture means it is able to make money from the Swedish financial market. SOKIMO has signed many similar contracts with Western junior mining companies. Very few, if any, have actually extracted any gold from eastern Congo, and most of them never will. Usually, the companies just explore for gold, and as the international price for the metal increases, so does the value of the concession and the stock price. As a result, the junior mining companies and their partners in Kinshasa can make millions of dollars through their Congolese subsidiaries without ever setting foot in eastern Congo—or, for that matter, actually violating Dodd-Frank or the proposed EU measure.

The root of the problem is a lack of transparency and regulatory supervision in joint venture agreements signed by the companies and their state-run counterparts. The situation is widely known and readily acknowledged by Western diplomats, business people, and military brass. The World Bank and the International Monetary Fund have been pushing for greater transparency, but progress has been slow.

Here's how a Congolese army officer explains the scam:

In Belgium, the Royal Museum for Central Africa is a short 20-minute drive outside of Brussels, and it has an expansive collection of colonial mining maps. When the men from the mining companies are passing through Brussels, they visit the museum to get a hold of these old mining maps, and then they try to figure out just how much gold a particular mining concession contains, and then based on these figures, they buy or lease a parcel of land, and they publish company statements about how much the concession contains.

All the time, the price of gold is increasing, and they put out stock shares based on this value, which they've supposedly measured or proven through exploration samples and tests, and this process makes them quite rich. Most of these companies—and there are many—make their money simply by speculating on the value of gold, and then they just cash out, because they don't have the expertise to extract the gold.

Now, here's how the game was played by Mineral Invest: On a warm summer night at their Stockholm headquarters in 2011,

Andersson, the founder, and Jonas Eriksson, the former CEO, stand before a crowd of about 100 investors. Eriksson shows them a map he'd found in Belgium, one he describes as "great and old." The map, he says, helps illustrate the incontrovertible value of the Congolese mining concession that his company has signed an agreement to explore. In the course of the meeting, Andersson and other company officials promise great returns on any investment.

From 2009 to 2012, the company authorized four separate rights issues, a procedure that allows a company to raise capital by issuing additional shares of stock. A company often announces a new rights issue when it is having problems raising capital through traditional means. During a one year period, the company raised \$18 million through these procedures. A large amount of stock was bought by board members and company officials. A large amount was also bought by major institutional investors in Sweden. But it's difficult to understand exactly how these funds have been spent.

The tendency of junior mining companies to discover gold and then sell their concession to a larger company at a profit is an open secret among diplomats, aid workers, and even some Congolese officials. The multinational company has the money and the in-house expertise to exploit the mines and deliver the minerals to the world market, while the junior mining company does not.

But this approach can cause problems if the junior mining company is shortsighted or if its officials have signed poorly drafted or one-sided contracts and formed corrupt joint ventures that endanger investors and markets. Such strategies can make it difficult for a larger company to purchase the concession and remain compliant with Dodd-Frank Act or the pending EU legislation.

Corrupt small companies on alternative exchanges or privately owned companies can easily evade Dodd-Frank and the pending EU legislation, but it's much harder for the large, multinational mining companies.

Indeed, officials at the International Monetary Fund and the World Bank have accused SOKIMO of corruption and siphoning off millions of dollars that belonged to the state and could have been used for social and infrastructure improvements. The well-meaning transparency laws in the United States and European Union are unlikely to deter many junior mining companies from working with SOKIMO.

One of the problems with SOKIMO is that it plays conflicting roles in its relationships with international companies. On the one hand, it issues permits and licenses for gold exploration and exploitation, and on the other, it creates joint ventures with publicly traded international companies to exploit the gold. The relationship raises important questions, because there appear to be no legal checks and balances to ensure transparency and prevent corruption. "There may be significant conflicts of interest in the contracts," says Steve Dimitryev, a senior analyst with the World Bank in Kinshasa. "Indeed, this kind of structure is loaded with potential problems and conflicts, and it is difficult to guarantee transparency and minimize corruption."

SOKIMO has signed a host of agreements with international mining companies and created clear conflicts of interest that have been enormously destabilizing. For instance, Rand Resources, based in the offshore tax haven of the Isle of Jersey, and the South Africa-based AngloGold Ashanti signed a joint venture agreement with SOKIMO, called the Kibali Gold Project, to mine gold in the Watsa area of northeastern Congo. But thousands of artisanal miners,

who worked independently on small, locally run projects, had already been mining the area for many years. They also had contracts with SOKIMO.

In July 2010, this conflicting understanding led to frustration, anger, and deadly protests in Watsa. In the end, SOKIMO sided with the Kibali Gold Project and forced the relocation of an estimated 15,000 people from the 14 villages inside the project's development zone. Kibali built a model town to house all of the relocated miners, but most of them remain out of work. The land they worked has been designated off-limits by SOKIMO and the Kibali project. During a drive through the muddy streets of the new company town meant to house the displaced miners, visitors are met by the hard stares of hundreds of unemployed young men outside music shops and small stores. Many of these men are former combatants from Congo's wars.

"It has been the constant worry in post-conflict Congo, that young men such as these may find unemployment so unbearable that as an act of desperation they may return to the gun, and decide to join one of the region's many armed groups," says Gregory Mthembu-Salter, a former adviser with the UN Group of Experts on the Democratic Republic of the Congo. "The inability of people to earn a livelihood and provide for their families is, in fact, quite destabilizing for this region."

Aggravating the problem further, many junior mining companies are not closely watched by financial regulators in their home countries. "We do not as a matter of routine examine contracts or look closely at

licenses—we just don't have the resources," says Peter Gönczi, the chief operating officer at Aktietorget, the exchange where Mineral Invest stock is traded in Sweden. "It's true that our primary responsibility is to shareholders, but we can't know precisely what is happening in some countries, especially if they're just emerging from civil war, like Congo."

HALF A DAY'S DRIVE

The Mineral Invest gold concession in the village of Wanga is half a day's drive from Kibali over rutted dirt roads and tracks through forest and savannah.

Its joint venture with SOKIMO is similar to agreements that other international companies have with the state-run company. SOKIMO has agreements with both artisans and Mineral Invest to exploit the same concessions,

and in Wanga, it has been just as much a source of tension as it was in Watsa.

In 2011, frustrations had approached the tipping point. Artisanal miners in Wanga were worried that Mineral Invest might push them off the land and stop them from digging, just as the Kibali project had done earlier. The people protested, and there was fear that the security situation would soon deteriorate. In a bid to calm the situation, the vice governor of Oriental province, Ismaël Arama Ndiama, went to the village.

Ndiama, who left office in 2013, met with local chiefs and other community leaders, and in a speech lasting several hours, he told them Mineral Invest was a legal company that would bring jobs and development. According to a senior member of Wanga Civil Society Council, who attended the meetings but spoke on

THE SOLDIERS REMAIN AN INTIMIDATING PRESENCE IN THE VILLAGE.

condition of anonymity, Ndiama also said that Mineral Invest “should be allowed to conduct its exploratory activities unhindered in preparation for industrial gold extraction.” But locals have little trust in their officials, whether provincial or national, and the protests continued.

In May 2011, Janet Kabila, twin sister of President Kabila, visited Wanga. She repeated the same message and ordered the people to let Mineral Invest conduct its explorations unobstructed. Janet reminded them of her authority, and of the authority of the state, and when she departed, the protests ended. “We still do not know why Kabila cares so much about such a small company,” says the local official, speaking on condition of anonymity.

Janet is among the president’s most trusted advisers, and she has a reputation as a no-nonsense businesswoman who takes care of her brother’s interests. Before leaving, she reminded the local community of the nearby detachment of soldiers that Mineral Invest had contracted to provide security at their camp. “Kinshasa’s authority extends even to this remote corner of eastern Congo,” she was reported to have said to the official.

The soldiers guarding the Mineral Invest compound belong to the Commando Battalion, a former rebel unit that has not been fully integrated into FARDC, as the Congolese national army is known. The battalion was implicated on charges of cannibalism and the ethnic slaughter of Pygmies during Congo’s civil war in the Effacer le Tableau campaign in 2002-2003. The identity, location, and history of this unit was confirmed by several senior UN

officials in Kinshasa. One soldier smiled proudly when asked about the meaning of the badge on his uniform, which he said identified himself and his comrades as members of the Commando Battalion. The unit was part of the military wing of the Movement to Liberate Congo (MLC) under Jean-Pierre Bemba, a former rebel leader and vice president of Congo who is now being tried at the International Criminal Court in the Hague for crimes against humanity.

The soldiers remain an intimidating presence in the village. Mineral Invest claims that SOKIMO forced the company to hire them for security. The company’s senior manager in Wanga says he doesn’t trust either SOKIMO or the military at the camp. “I try to have very little contact with the soldiers. I pay them the money that they are supposed to get. But I do not trust them, so I stay away from them,” says Mikael Eriksson, Mineral Invest’s site manager in Wanga.

The soldiers sleep in green army tents in a barbed wire compound in clear view of the Mineral Invest camp, no further than 100 yards away. When Eriksson goes to the field, sometimes very close to where the artisans are working, the soldiers ride with him for security. As Eriksson and his staff work, the soldiers drift away to the mines and extort gold from the artisans. “It is always some small piece of gold that they want from the boss, maybe something to drink too, and a cigarette, and we give it to them,” says Kisémbé Ngisa, a pit boss who runs a mine and employs 18 artisanal miners. “That is how it must be.”

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Yet according to Congolese law, the military presence at the mine is illegal, and the Ministry of Mines claims that it takes the matter seriously. Many of these mines have been used as a source of funding for criminal networks within the Congolese military, business as usual for a country where, according to the UN Group of Experts, as much as 80 percent of the gold leaving the country is exported illicitly.

Appearances can be deceiving in Congo. On its website, Mineral Invest reported that it trades in metals and minerals in addition to its main activity, exploration. But senior company officials say Mineral Invest has ceased trading, and they give conflicting reasons as to why that decision was made. Andersson, Mineral Invest's founder and former chief operating officer, says the company has never traded and never even possessed the appropriate license to trade gold in Congo:

Question: "Did you trade gold?"

Andersson: "No. For me it was important not to deal with conflict minerals, and it proved impossible to check if there were no insurgents or criminals who were behind the gold."

Question: "So you did not trade at all?"

Andersson: "No, I never had a license to trade."

Question: "Was there anyone else in the company who dealt with minerals?"

Andersson: "No."

Question: "But that is in your annual report and on your website that you are dealing in minerals."

Andersson: "It is a mistake, and it should be removed."

It has since been removed.

In a separate interview, Eriksson, the Wanga site manager whose business card reads "Mineral Invest Director of Trading Africa," appears to confirm Andersson's comments. He says he's told his bosses, including Andersson, that it's impossible to verify the identity and possible criminal association of the people and organizations with whom he's supposed to trade minerals. "I was hired as the director of trading for Africa but simply refused to, because I understood it to be a crime and a UN-sanctionable offence to trade minerals, including precious metals and stones, with armed groups. And it was too difficult to tell if an individual or company was representing an armed group in Congo," Eriksson says. "I told them I wouldn't do this job, and my bosses said, 'Mikael, we understand'."

But former CEO Jonas Eriksson (no relation), based in Stockholm, tells a different story. He says Mineral Invest had traded through a partner company in Congo. "Initially our company worked [traded gold] via our partner, Bijoux Lombeya's company SIM," Eriksson says. Lombeya is also the Mineral Invest country manager and shares a luxury villa with Andersson. Lombeya participated in a two-and-a-half-hour interview with Andersson on the first floor of the villa, which functions as an office. But he mentioned nothing about such an arrangement and never corrected or clarified any of Andersson's comments about gold trading, including his statement that nobody in Mineral Invest was trading gold. "We acted as middlemen and brokered trades, but did not fully participate," says Jonas Eriksson from his office in Stockholm. "The trading was being done via Bijoux."

A DEARTH OF OVERSIGHT

While Mineral Invest presents a confused picture of its mining and trading activities,



Swedish financial authorities are not much more enlightening. Officials at Aktietorget say they placed Mineral Invest on its black list, but had never inquired about Mineral Invest's ability to legally trade gold. "We have neither seen, nor asked to see a gold trading license. And if they had given it to us, then I'm not sure we would have known how to evaluate its authenticity," says Gönczi.

Warning signs had appeared early. There were problems with the joint venture contract—and they should have been noticed by the market, Swedish regulators, and perhaps law enforcement. Top officials at Aktietorget complain they are unable to supervise listed companies adequately, claiming they simply do not have the resources.

"We acknowledge that this is a problem. We follow the law, we do what is required, but it's extremely difficult for us to know the details of some of our companies," Gönczi says at Aktietorget. "A company with operations in Russia might tell us that it is paying tax to Moscow, but we have no

way to know this—no real way to confirm this other than through the paper or the tax receipt that they show us."

Giving real-time shape and form to Aktietorget's comment, Andersson explains from his office in Kinshasa that the company had been listed on Aktietorget without ever having to prove it had a reliable revenue stream, a requirement that would have disqualified it from being listed on the better-regulated, more-established Nasdaq OMX exchange in Stockholm.

The Aktietorget listing quickly allowed Mineral Invest to earn millions of dollars through stock sales. Indeed, the company raised \$18 million through stock offerings between 2010 and 2011. Many shares were bought by former board members and top managers. Although these managers were later questioned by Swedish authorities after other major shareholders made allegations of money laundering that took place before 2010, no questions were raised about the provenance or disposition of the \$18 million. Neither Aktietorget nor Sweden's

financial authority, Finansinspektionen, made any inquiries.

As a result, according to Andersson, by the end of 2011 Mineral Invest was ready to get down to serious business. He speaks almost wistfully about the company's humble beginnings. Although Mineral Invest didn't even have a license to explore, exploit, or trade for gold before going public, it managed to get around all these obstacles. The signing of the joint venture agreement with SOKIMO was proof of the ability of this underdog company to beat the odds. At Aktietorget, Gönczi admits they had not looked closely at the joint venture contract, a lack of oversight that fits neatly into the pattern of shortcomings often attached to alternative stock markets. Both AIM and Aktietorget have been criticized for their lax regulation. In 2007, for instance, Roel Campos, former chair of the U.S. Securities and Exchange Commission, described AIM as "a casino" in the London *Times*, and warned, "It is a losing proposition to tout lower standards as a way to promote your markets." In a report from June 2012, the OECD excoriated Sweden for one particular regulatory shortcoming—the inability to detect and combat money laundering.

MONEY LAUNDERING

In April 2012, Andersson, the founder of the company, resigned after media reports linked him to Jonas Falk, the convicted Swedish drug trafficker who was sentenced to 18 years in prison for possession of 1.4 tons of cocaine and for attempting to move an additional four shipments of cocaine from

South America to Europe with an estimated street value of \$619 million, according to the International Public Prosecutors Office in Stockholm. Swedish authorities say Falk laundered some of his money through Mineral Invest. They also said that he was a primary financier of a Cyprus-based holding company, Yellow Brick Mineral Trading, which Andersson ran, perhaps as an earlier incarnation of Mineral Invest. Falk was arrested in December 2010, and Martin

Selander, a forensic accountant at the prosecutor's office, supervised the financial investigation of Falk and his connections with Mineral Invest. Jonas Eriksson was also forced to resign as CEO.

Falk was convicted for trafficking five shipments of cocaine. Two of those shipments—one in 2006 and another in 2008—had arrived successfully, according to Swedish authorities who now say they confirmed this

information through wiretapping and email surveillance. "We've also seen that a lot of the assets, and the money trail leads back to Falk, including investments, property, automobiles, and boats," says Selander. "We don't know the precise size and worth of the shipments, but we have managed to trace assets, and have an idea that the shipment in 2006 was worth, at an absolute minimum, about \$4.9 million," Selander continues. "In 2008, using the same methods, we know that it was worth an estimated \$10.6 million. But again these estimates are quite modest. The street value of what we found in 2010 was \$599 million, and that's also a very modest estimate." Selander says they traced the money with the help of wiretaps of Falk, his aunt Harriette Bromann, and

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Andersson, adding, “We came to believe that she was acting as some sort of front for him financially, by having assets in her name that were actually being used by Mr. Falk. We requested information from all of the major Swedish banks and other financial institutions [about whether] they had Bromann as a customer. Her name then showed up at Avanza Bank. We got the information that she had quite a large number of shares in Mineral Invest. In the beginning, she owned something like 16 percent of all of the shares of the entire company.”

In addition, authorities learned through wiretaps that both Falk and Bromann had numerous conversations with Andersson. During those conversations, they spoke about Bromann’s investments in Mineral Invest. “Our view is that Jonas Falk made an investment in another company, or a project that Joachim Andersson had. We believe that he invested in Yellow Brick Mineral Trading, which Andersson ran and represented because he had power of attorney over Yellow Brick. Our standpoint is that Falk got the shares in Mineral Invest as an in-kind payment for his early investment in Yellow Brick,” says Selander. “Though, to be honest, we are not really sure how much Falk invested in Yellow Brick Mineral Trading—we only know what we found.”

Swedish prosecutors have only looked into the laundering of about \$180,000 through Mineral Invest. Prosecutors say the investigation was limited, because they lack evidence and resources. Despite the money laundering allegations against Falk, “we are not looking into the \$18 million earned through stock rights issues, because that is not our mandate, we do not have the resources, and the [possible] money laundering of \$18 million is not what we have evidence on. Our target is Falk and

the cocaine. It is not Mineral Invest,” says Hans Jörgen-Hanström, Sweden’s assistant prosecutor for international crime.

Jonas Eriksson, Mineral Invest’s former CEO, previously said the \$18 million had been used for salaries, mining equipment, and investment in the concession in east Congo. Yet at the concession, there was very little indication of any investment. The site contains a few brown tents surrounded by a wooden stockade and housing a local staff of cooks, drivers, and fixers. Indeed, Selander said near the end of the trial that he was not even aware of the \$18 million.

Speaking of its efforts to combat money laundering, the OECD says Sweden lacks the “resources, and apparently the ambition to investigate and prosecute Swedish companies for money laundering ... there are signals that something is not working in Sweden.” In fact, the defense withdrew seven out of the nine witnesses it had planned to call in the Falk case. Members of a special police undercover unit, these seven had grown too close to Falk, according to the court. Sweden’s TV4 reported in September 2012 that the officers are suspected of having leaked information, including court documents, to Falk.

“If we find that a company is breaking the law or regulations, we could perhaps fine them or even kick them out of the exchange. But we find that in the end, the company is unlikely to change its ways. It simply adapts, and often it moves to another exchange,” says Gönczi.

Sure enough, Mineral Invest announced in June 2012 that Amarant Mining Ltd. had bought a 50 percent share in the company. Soon afterward, Amarant announced that it was considering the possibility of moving the company from Aktietorget to another stock exchange. ●