



MARKET ANALYSIS OF NORTH AMERICAN GOLD JEWELRY MARKET

USAID Commercially Viable, Conflict Free Gold Project
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Market Analysis of North American Gold Jewelry Market

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Executive summary

USAID's *Commercially Viable Conflict-Free Gold Project*, known locally as "Zahabu Safi" (Clean Gold), is a five-year program, implemented in the Democratic Republic of the Congo (DRC) by Global Communities and Levin Sources. The project aims to establish a responsible, commercially viable and conflict-free ASM gold supply chain from eastern DRC. A key objective for achieving the project's vision is to increase demand for and co-investment in responsibly sourced ASM gold from eastern DRC. The European and North American jewelry markets were identified as key potential buyers of gold from the region. In 2019 and 2020, Levin Sources conducted a gold market analysis in each geography respectively, interviewing 49 jewelers, manufacturers and responsible jewelry initiatives. The market analyses investigate demand for ASM gold, reveal motivations, barriers to and requirements for sourcing ASM gold and identify potential market actors who would be interested in engaging further with the program. This report follows on from the first [market analysis report](#) covering findings from the European jewelry market, to showcase the findings from the North American market.

Key findings

- **Jewelers have been hit hard by COVID-19**, with supply chains disrupted and sales dropping off. Whilst most saw gradual improvements from August 2020, they are unable to predict if or when their gold buying demand will return to pre-pandemic levels. Jewelers are currently hesitant to buy significant volumes of gold and are making use of existing stock.
- **The Black Lives Matter movement has increased interest in ASM gold for some.** The social movement prompted several jewelers to reflect on their company's mission and investigate the possibility of sourcing responsible ASM gold as a way of being more inclusive of artisanal mining communities.
- **Most jewelry companies want to support ASM supply chains and see the potential for responsible sourcing of ASM gold to improve the lives of ASM communities.** However, 75% recognize that the challenging context of ASM in the DRC means they need to be comfortable with continuous improvement (a supply chain where improvements in standards happen gradually from a baseline of compliance, enabled by jeweler purchases). Zahabu Safi will take a progressive improvement approach, having gathered baseline risk data at each partner ASM site.
- **The greatest barriers to sourcing ASM gold remain the higher cost of the gold and the low overall levels of consumer demand.** Although 58% of jewelers already source artisanal gold, most stock it alongside recycled gold. The popularity of recycled gold has catapulted in recent years, becoming positioned as 'the ethical choice' in the US, tapping into the growing environmental consciousness of consumers. It is usually more affordable, more readily available and therefore easier to sell than ASM gold. There is a lack of knowledge about the problems that responsible artisanal gold mining initiatives seek to address. Zahabu Safi will work with jewelers and existing initiatives to craft and deliver communications packages, articulating a clear impact proposition for responsible ASM gold from the DRC.

- **Responsible ASM gold on the market is often unsuitable** for jewelers. Larger jewelry brands mentioned small volumes and inconsistent quality of material, and smaller jewelers can struggle to find the colors, carats and mediums of gold they need. 30% have stopped sourcing from existing initiatives because of these challenges. Zahabu Safi has identified the most popular color, carat and form of gold, along with the minimum commercially viable volumes of gold for refiners, manufacturers and large jewelry brands, and will seek to meet those demands.
- **Complex logistical challenges prevent jewelers from trialing or repeatedly purchasing ASM gold.** As consumer-facing market actors, jewelers are dependent on establishing trusted and reliable relationships with upstream companies supplying the gold. Manufacturers can face challenges finding a reliable exporter and may lack the means to conduct their own mine-site due diligence. Smaller jewelers often struggle to find a caster who will work with a niche supply of ASM gold which they may need kept segregated from other provenances. Zahabu Safi is working with project partners RCS Global and Betterchain to design a smooth due diligence system, and will continue stakeholder engagement to identify solutions to pilot.
- **Due diligence and reporting requirements associated with ASM gold can be time-consuming, costly and confusing.** Many smaller jewelers said they strive to be responsible businesses and have some understanding of the risks associated with sourcing ASM gold. However, they lack the technical knowledge and capacity to conduct adequate due diligence on their supply chains. The world of multiple standards and initiatives can be a confusing place for SMEs. The words ‘transparency’ and ‘traceability’ cropped up repeatedly in interviews but with different definitions: perhaps a reflection of the opacity of most gold supply chains. Bigger brands and manufacturers face different challenges, including authorization from their banks to purchase gold from the DRC and recognition of responsible ASM provenances by the certification schemes against which they are audited. Zahabu Safi will provide guidance to jewelers and engage with other stakeholders to unblock compliance barriers for larger brands.
- **Different size jewelers prefer different models of supply chains.** Smaller jewelers are more likely to prefer a ‘closed pipe’, where the gold is segregated from other provenances at each stage of the chain. Larger jewelers tend to prefer a mass balanced approach, which allows for a more cost-effective sourcing model. Zahabu Safi will continue to explore the possibility of various forms of both supply chain models with upstream and midstream market actors.
- **Jewelers expect regular reporting by upstream market actors on the progress of ASM practices against key standard criteria.** Beyond addressing the most material risks, 75% of jewelers would expect to see mercury usage being regulated and progression towards alternative technologies. Conflict was lower down the order of risks for most respondents. It is important for jewelers to know how any amount paid above LBMA spot price is being spent, and that a proportion is somehow going directly to the mining community generating positive impacts over time. Zahabu Safi is developing corrective action plans to address the risks identified in the first partner ASM sites and is working on a costing analysis of potential supply chains, which will lead to potential pricing models.
- **Marketing and communications campaigns and materials will be key to supporting jewelers in generating demand for responsible gold from eastern DRC.** Zahabu Safi will launch communications campaigns in 2021 and will work with jewelers to develop materials for storytelling about the gold.

Regardless of size, geography and position in the supply chain, jewelry companies are contending with commercial pressures, practical requirements, and the need to comply with responsible sourcing legislation and standards. These are not challenges that they can overcome alone, no matter how much they would like to support ASM supply chains.

The North American gold market analysis reaffirms the need for public-private partnerships, multi-stakeholder collaboration and trade facilitation. Over the next three years Zahabu Safi will continue to work to be a conduit for these processes of change.

Jewelry market in North America: overview

The North American jewelry market was identified as a key downstream market for gold sold under the CVCFG program. North American jewelry sector purchases accounted for at least 50% of global gold demand in 2019.¹ In Quarter 2 of 2020, global gold demand decreased by 11% as a result of the COVID-19 pandemic. Global jewelry demand for gold decreased by 46% year-over-year as markets remained in lockdown and the price of gold rose. While a depression in demand for gold jewelry occurred globally, gold jewelry demand fell by 34% in the United States, 42% in Europe and 33% in China in Quarter 2 of 2020. Comparatively, demand for gold jewelry decreased more significantly in other regions, falling by 69% in the Middle East and 74% in India², suggesting that the US, European, and Chinese gold markets were more resilient to the crisis.

The North American jewelry industry exhibits a growing awareness of the importance of responsible sourcing practices, with particular concern for gold sourcing, as evidenced through the increased number of educational, philanthropic, and market-based initiatives that have developed over the last five years. The North American jewelry market's growing demand for gold prior to the pandemic and its comparative resilience throughout the crisis reflect its continued importance as a potential market for the CVCFG program.

Methodology

130 jewelry stakeholders were invited to interview for the North American gold market analysis. 27 in-depth interviews were conducted, representing an initial engagement rate of 21%. Market actors were divided into distinct categories according to their differences in size, supply chain position, services, product value, and clientele. These are represented in the following categories: Designer-Makers, Small and Medium-Sized Enterprises (SMEs), High Street, Luxury, Manufacturers and Platforms. See Annex 2 for definitions of each stakeholder category and a detailed overview of the methodology.

¹ World Gold Council, 2019, Gold Demand Sectors, [Accessed 09.06.2020]. URL: <https://www.gold.org/about-gold/gold-demand/sectors-of-demand>

² World Gold Council, 2020, Gold Demand Trends Q2 2020, [Accessed 09.06.2020]. URL: <https://www.gold.org/goldhub/research/gold-demand-trends/gold-demand-trends-q2-2020>

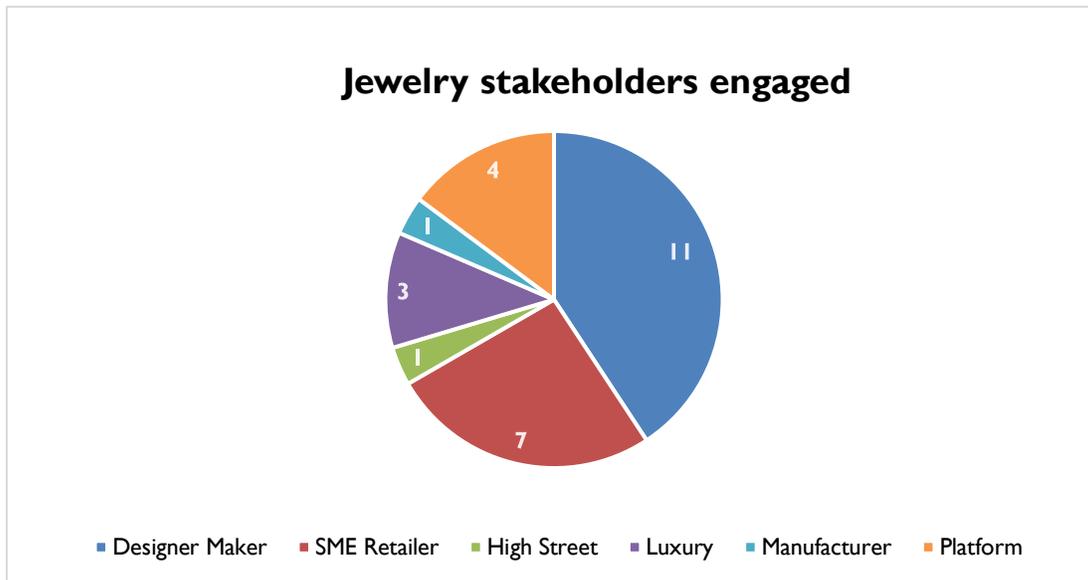


Table 1: Numbers and category of stakeholders interviewed in each category

Responsible gold sourcing: attitudes and practices

Perception of responsible sourcing

Zahabu Safi is built on a deeper understanding of the whole supply chain and ASM gold market and therefore launched with a full market analysis, carried out in 2019 and published in 2020. As part of its first phase, this [market analysis](#) examined the ways in which European jewelry stakeholders define ‘responsible sourcing’, noting that their conceptions of responsible sourcing are determined by a multitude of factors. The Phase I report found that the majority of respondents (90%) had a somewhat defined conception of responsible sourcing, with 68% of responses referencing social impacts and 23% referencing environmental impacts.³ Participants’ definitions of responsible sourcing was not covered in this analysis, however transparency, safe labor practices, environmental standards, and greater socio-economic benefit to mining communities were often referenced in regard to responsible sourcing across all actors. The majority of participants expressed a general awareness of the social, economic, and environmental issues tied to gold sourcing and acknowledged the importance of supporting responsible artisanal gold channels in order to contribute to positive development impacts in source countries. This analysis also acknowledges that each category of jewelry market participant varies in size, services, clientele, and priorities – determining their unique incentives and barriers to responsible gold sourcing.

Gold sourcing practices

The jewelry market actors interviewed primarily source gold from six provenances: Large-Scale Mining (LSM), Recycled (from supplier), Recycled (from clients), Fairmined (ASM), Fairtrade (ASM), and JustGold (ASM). Of the 46% of participants that use recycled gold, 38% source recycled gold from a supplier, as opposed to re-crafting their clients’ old jewelry. The majority of jewelers (see Annex 2 for definitions) sourced from three manufacturers and refiners in the US. SMEs represent 47% and Designer-Makers represent 40% of the total number of participants that source gold from multiple provenances. Few of the participants (19%) have one provenance for sourcing gold and if

³ Levin Sources, 2019, Market Analysis: Artisanal and Small-Scale Mining (ASM) Gold From Eastern DRC. USAID’s Commercially Viable Conflict Free Gold Program.

they do, it is usually because it best meets their company values. For one SME, the choice to use one provenance was because the recycled gold supply chain met its priority goal to address environmental impact. Another SME stated that they only work with Fairmined Ecological gold out of concern for the environmental impact of gold mining. A Designer-Maker explained that she only uses Fairmined gold, “*It is an ethical issue for me.*” They would be very unlikely to consider sourcing another provenance of gold. Those that use multiple sources do so out of convenience and availability of material and a desire to offer their customers choice. For one large Luxury jeweler, they aspired to source multiple provenances as they felt each had a role to play in achieving a “*sustainable mining future*”.

70% of jewelry stakeholders interviewed have purchased artisanal gold; over half are currently sourcing ASM gold. Several High Street and Luxury jewelers have sourced ASM gold in the past but were no longer doing so. For some, the exercise had been part of a pilot export within the context of a finite donor-funded program. Another sourcing certified ASM gold, stopped doing so due to low consumer demand for the jewelry and a change in company sourcing policy towards recycled gold. The most common provenance was Fairmined gold, with a handful of jewelers sourcing from Fairtrade and other, non-certified, sources of ASM gold.

The participants’ existing level of engagement with third-party certified artisanal gold programs has informed their expectations of similar models, with a positive predisposition to supporting continuous improvement systems. 19% stated that they have previously purchased artisanal gold from the Democratic Republic of Congo (DRC). One third of participants said they would consider sourcing artisanal gold from the DRC and a further fifth would maybe consider purchasing if certain conditions were in place. These conditions are detailed in the Requirements section of this report.

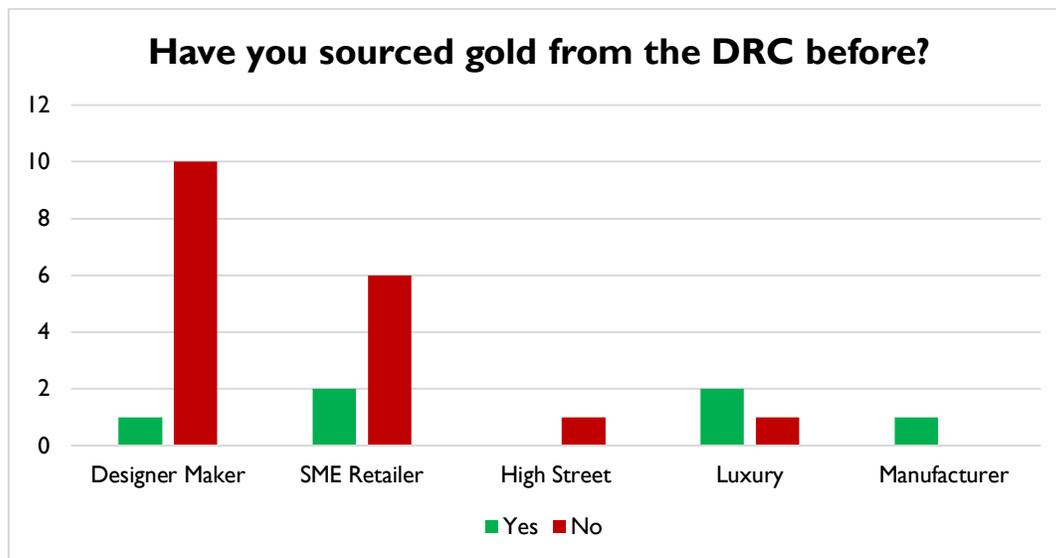


Table 2: Stakeholders that have previously sourced ASM gold from DRC

In designing commercially viable gold supply chains, it is important to consider jewelry market actors’ desired forms and alloys of gold. Those that are most likely to invest in artisanal gold (SMEs and Designer-Makers) require the availability of certain forms and alloys of gold to meet their design, production, and customer needs. These are supplied by manufacturers once gold has been processed by refiners. The primary form of gold that participants purchase is casting grain, followed by wire. Gold is also purchased by participants as chain, sheet, fine gold, solder, and findings. The desired alloys for jewelry market actors vary based on the product style, manufacturing options,

cost, and availability. The most popular current alloys sourced by participants include 24 karat recycled gold, 18 karat yellow gold, 14 karat recycled palladium white gold, and 24 karat Fairmined gold.

Some of the jewelry market actors interviewed provided information on the volume of gold sourced. Several participants did not know the amount they sourced at the time they were interviewed (common for companies sourcing manufactured components), while others preferred not to disclose this information. For those that disclosed information on volumes (30%), the Designer-Maker category averaged 11.33 ounces (0.321 kilograms) of artisanal gold per year, SMEs averaged 154 ounces (4.37 kilograms) of artisanal gold per year, and Jewelry Manufacturers averaged 423 (12 kilograms) ounces of artisanal gold per year. More detailed research and analysis on gold purchasing volumes is required to project demand for artisanally mined gold from the DRC.

Sourcing rationale

Through the analysis for each provenance choice, many reasons were identified which help explain market actors' sourcing decisions. The analysis of this particular group of market actors found that recycled gold is the provenance most commonly sourced across categories due to cost, availability, and customer demand. SMEs and Designer-Makers are most likely to purchase artisanal gold, citing their reasons as a preference for the level of traceability offered by some schemes and a desire to benefit source communities in an impactful way. The primary reasons that High Street and Luxury businesses cited for being less likely to purchase artisanal gold include the perceived lack of consumer demand for the material and the inability to secure a consistent supply of ASM gold.

Jeweler and Consumer Requirements

It is important to those individuals downstream – both jewelers and consumers – who are deliberately purchasing artisanal gold, that the premium they pay supports miners and that there is a secondary benefit of supporting community development when the gold is purchased.

Large-Scale Mining (LSM): Of those interviewed, one participant representing the Luxury category sources gold from LSM, citing that their chosen LSM operations offer greater levels of traceability than other provenances of gold. As a large company, this participant noted that greater control over its entire supply chain from sourcing to production provides a preferable level of oversight and risk management.

Recycled Gold: Recycled gold was the most frequently cited provenance of gold due to its widespread availability, affordability, reliable delivery, and customer demand. 44% of those interviewed use recycled gold, primarily SMEs and Designer-Makers. SMEs were most likely to source recycled gold from a supplier, while Designer-Makers were equally as likely to source recycled gold from their clients. Participants said that recycled gold is easier to communicate as a responsible option to consumers than artisanal gold. There are general positive connotations with 'recycling' outside the mineral sector and it is increasingly advertised as a more 'ethical' gold provenance to consumers. It is also more frequently recognized by clients as the more environmentally sustainable option. Participants find it easier to manage the risks and assess the impacts associated with recycled gold, with one respondent stating that if artisanal gold is not 'traceable', recycled gold is preferred. Some participants would prefer to purchase responsible ASM over recycled gold but the additional costs associated with the certified ASM gold led them to choose the latter. Moreover, recycled gold supplies were said to be more reliable, accessible, and offer gold in a greater variety of forms and alloys.

Artisanal and Small-Scale Mining (ASM): Designer-Makers and SMEs were most likely to intentionally purchase ASM gold. SMEs represent the largest proportion of stakeholders interviewed. Many of the Designer-Maker and SME stakeholders engaged had an existing interest in responsible sourcing practices, and some in this group were engaged for the first group-purchase of certified artisanal gold in the United States through Ethical Metalsmiths in 2013. Many

of the Designer-Maker and SME stakeholders purchasing artisanal gold expressed that they do so because they desire to make a positive impact through their sourcing decisions; they enjoy knowing that the premium they pay is dedicated specifically to benefitting mining communities, and they find the certification and level of traceability acceptable.

“There’s a parity in artisanal jewelers supporting artisanal mining”

SME Retailer interviewed

“It creates a singular thread in storytelling - artisanal miners to an artisanal jeweler. I would not keep making jewelry if this gold wasn’t available because it creates meaning in peoples’ lives.”

Designer-Maker interviewed

Participants that purchase artisanal gold commonly cited that personal or company-based principles informed sourcing from artisanal mining communities as a priority for responsible practice. Those that purchase artisanal gold choose Fairmined Gold or Fairtrade Gold because they are certified by an independent third party, which provides the buyer with a level of assurance that responsible practices are in place. JustGold is not certified, but one respondent that sources JustGold found impact data and traceability records offered sufficient assurances that the gold was responsibly sourced. They also appreciated not having to go through what can be a costly and time-consuming licensing process to purchase the gold. It is important to the artisanal gold purchasers that the premium they pay supports miners and they enjoy knowing that there is a secondary benefit supporting community development when these materials are purchased. While those that purchase artisanal gold frequently cited humanitarian-related benefits, some also acknowledged their decision for this choice was tied to deep concern for the environment. Concern over mercury use and a desire for mercury mitigation in artisanal mining provenances was important to maintaining these respondents’ engagement with certified artisanal gold.

Sourcing ASM gold from the DRC: barriers and requirements

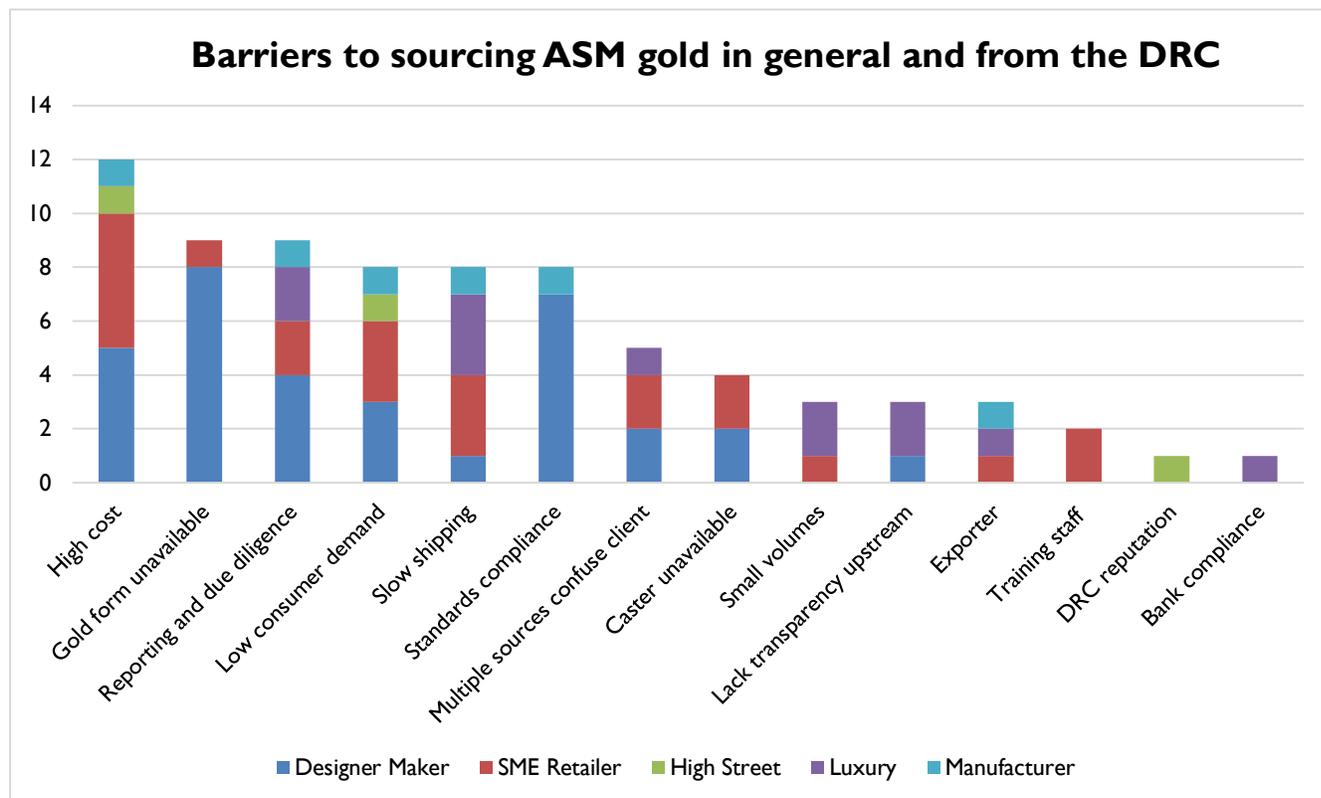


Table 3: Barriers to sourcing responsible gold

All market actors face barriers that create challenges to their responsible sourcing goals. As awareness and desire for responsible sourcing grows, market actors face limitations in terms of what is possible. Such barriers can hinder responsible sourcing pursuits and discourage them from advancing. Barriers are obstacles which participants overcame or blockages which have not been addressed. The most common barriers are grouped into four categories:

1. Financial and commercial viability
2. Supply and production
3. Risk management and due diligence
4. Consumer demand and marketing

Many of the challenges raised by the participants from North America were similar to those faced by European jewelers interviewed in the first phase of the market analysis. However, some barriers were heightened or driven by different factors, such as the lack of consumer demand for ASM gold as a responsible choice when compared to recycled gold.

Barriers

Financial and commercial viability

The record-high gold prices and volatility of the gold market experienced in Q2 of 2020, as a result of the COVID-19 pandemic, was cited as a barrier. Many jewelry companies are hesitant to purchase high volumes of gold in general at this time. A number of factors related to sourcing artisanal gold affect most market actors' bottom line, creating

financial barriers to sourcing. While most of the market actors interviewed acknowledged the value of the premium on Fairtrade or Fairmined gold received by miners, the overall higher cost at the point of purchase by jewelers remains a significant barrier for engagement. Some SMEs and Designer-Makers, as well as one Luxury jeweler (31% of respondents), stated that the higher cost is too difficult to absorb or pass on to customers, making it a barrier. For Designer-Makers and SMEs, additional labor costs related to casting (existing initiatives often require gold to be cast separately from other provenances for certain provenance claims to be made) and the inability to purchase artisanal gold in the form needed, further increases expenses related to sourcing artisanal gold. For a Luxury stakeholder, SME Retailer and Jewelry Manufacturer with prior experience sourcing artisanal gold from the DRC, the logistics, transportation, and due diligence paperwork costs of sourcing resulted in the total cost of sourcing gold being significantly higher than non-artisanal gold.

For some small actors in the Designer-Maker and SME categories, the minimum order quantity of ASM gold from Jewelry Manufacturers or refiners is too large for their modest use and therefore unaffordable to purchase. For larger actors in the Luxury and High Street categories, purchasing small volumes directly from mines is not feasible for meeting production needs due to low production volume at the mines. They remarked on the need in the short term to keep gold from eastern DRC separate from other provenances along the supply chain to assist risk management, but noted the additional cost such segregation would incur. One large Luxury jeweler manufacturer noted a longer-term preference for integrating gold with other sources during the refining process to reduce the cost and therefore reduce the barriers for greater absorption of responsible ASM into their supply chains. Several participants called for greater engagement with ASM by the jewelry industry as a whole, which would make it easier for them to source ASM gold. They suggest that costs could subside or be absorbed if more industry members were to engage or the industry worked harder to generate more customer demand for artisanal gold. A participant representing the Luxury category also noted that US banks' risk management policies create a challenge when trying to source artisanal gold from the DRC, as their own compliance systems often prevent them from funding the working capital for gold purchases from areas deemed to be conflict affected and high risk. Few participants were able to provide accurate estimates of gold volumes they would be willing to source from the DRC, citing the economic uncertainty tied to COVID-19 as affecting their ability to project demand.

Supply and production

The unavailability and delayed supply of existing responsible ASM gold was a barrier noted by participants in the SME, Designer-Maker, and Luxury categories. These businesses rely on customer relationships and branding tied to responsible products, so the inability to deliver the product as a result of delayed shipping can potentially result in the loss of sales and tarnish the brand image. In some circumstances the certified ASM gold needed was completely unavailable from the respondent's typical supplier. Inability to access the material in the form or alloy needed and the lack of certified casting centers is a barrier, especially for Designer-Makers and SMEs. 31% of the respondents noted an inability to access the form or alloy of artisanal gold needed as cause to disengage with artisanal gold sourcing programs, and that it created burdens, such as having to take additional time and money to create the gold in the form needed. One Luxury jeweler shared their experience attempting to source artisanal gold from the DRC, noting that identifying a reliable exporter that could deliver a regular flow of gold and refiners that were willing to accept the material (a key challenge being sufficient assurance on risk management) were key barriers. Several larger companies interviewed suggested that an export of two kilos of gold is the critical minimum volume for manufacturers to make purchasing ASM gold from the DRC commercially viable, after considering the expenses related to maintaining separate gold flow, transportation, and documentation of the process. The separate gold flow

Minimum Volume of Purchase

Several larger companies interviewed suggested that an export of two kilos of gold is the critical minimum volume for manufacturers to make purchasing ASM gold from the DRC commercially viable

was identified as a short-term risk management requirement, with longer term aspirations to integrate gold from the DRC into other gold provenances sourced by the company.

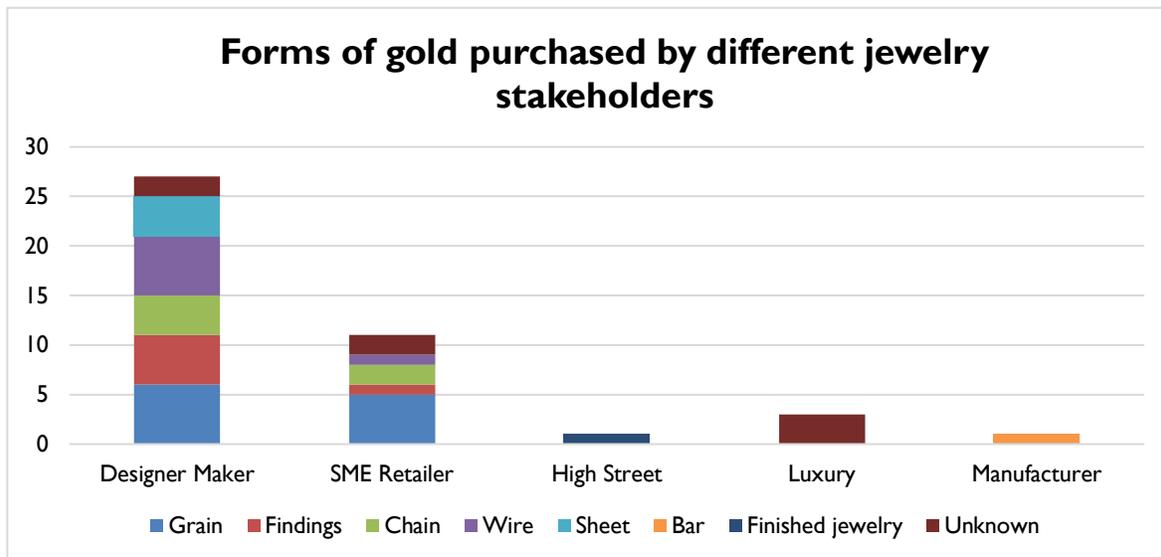


Table 4: Forms of gold purchased by different jewelry stakeholders

Risk management and due diligence

While those in the High Street and Luxury categories have processes in place to evaluate and monitor their supply chains, SMEs and Designer-Makers tend to rely on informal approaches to supplier evaluation or simply trusting the legitimacy of the certifying body or supplier of the gold to provide assurances on due diligence. Participants in the SME and Designer-Maker (19%) category noted that the licensing and reporting process of artisanal gold programs can be a barrier to engagement, citing that the requirements can be daunting, overwhelming, and difficult to fulfill. Alternatively, systems providing the same assurances of social and environmental risks management, with less obligations on the part of jewelers and casters, might be more accessible.

Consumer demand and marketing

30% of participants cited the high cost of artisanal gold as a barrier to purchasing the material, despite their personal preference to support such sources. Although 58% of those interviewed already source artisanal gold, many acknowledged that there is a lack of customer demand for material and that consumers prefer recycled gold.

“The reason why there is not much responsible ASM gold in the US is because no one cares. The customers are not asking for it. Trying to tell the story is the hardest thing in the world.”

SME Retailer interviewed

Recycled gold is the provenance of gold in greatest competition with artisanal gold, due to consumers’ lack of awareness of artisanally-mined gold and their recognition that recycled gold is the more environmentally sustainable choice. Artisanal gold was described as difficult to sell because customers do not know about the problems that responsible artisanal gold mining initiatives seek to address, or the risks also associated with recycled gold, and they are often unable to identify a significant difference between recycled gold and artisanal gold; artisanal gold is therefore not perceived to merit the higher cost. The lower cost of recycled gold, customers’ belief that purchasing recycled

gold will reduce gold mining, and lack of awareness around the potential benefits of responsible ASM gold, drives them to choose recycled gold. Some SMEs explained that their customers find any type of gold related to mining unappealing because of its environmental impact, despite the intended social benefits of artisanal gold standards like Fairmined and Fairtrade. Generally, recycled gold requires less nuance in communication with the customer. One participant representing the Luxury category noted that because “green” marketing is more common, it is easier for the consumer to digest and understand as opposed to artisanal gold, expressing the difficulty of making artisanal gold “cool” or “luxurious.”

The concepts driving consumers’ purchasing decisions are guided by a familiarity with and concern for environmental risks, more so than humanitarian, according to several jewelers. In a survey of consumers by one Luxury jewelry manufacturer, conflict risks were ranked as only the fifth most important issue to address in gold sourcing with humanitarian then the environment being the top two concerns. Educating the consumer on the risks and the reasons for sourcing artisanal gold often falls on the seller. For companies with sales staff, educating them sufficiently on artisanal gold sourcing poses a challenge; miscommunication on responsible sourcing could result in the loss of a sale. In considering offering alternative artisanal gold sources alongside existing provenances, there was a perception that multiple standards would be difficult to communicate to consumers, although this sentiment was not shared by all.

The level of support that artisanal mining initiatives are willing to offer to jewelers affects whether they remain engaged in sourcing from the initiative, particularly for SMEs and Designer-Makers. Smaller businesses manage due diligence without a great deal of dedicated support in-house, so are reliant on initiatives for guidance on identifying which provenance and impact claims can authentically be made about the material. The level of communication that an ASM gold program is willing to offer, as well as marketing material and the level of brand recognition among consumers within the country, impacts market actors’ ability to sell the gold and willingness to continue purchasing. Lastly, several participants noted a preference for accessible, virtual marketing materials as opposed to having to order them through the mail.

Requirements

Market actors from all categories have requirements for sourcing artisanal gold. The requirements vary in formality, though all market actors demand credible transparency and due diligence measures. The market actors’ requirements can be grouped in four categories:

1. Transparency, traceability and due diligence
2. Measurable impact
3. Cost, supply and production
4. Marketing and Communications

Based on the participants’ responses, the prerequisites for making responsible sourcing of ASM gold feasible are the following. The requirements are ranked in order of priority based on the most popular responses.

- Detailed transparency and traceability information from the mine of origin to the customer, including a documented chain of custody and provenance claim disclosures from suppliers.
- Third-party certification or at least assurance of the material.
- Attractive cost of material.
- Open communication between jewelers and program stakeholders, especially mining cooperatives.
- Jeweler participation in supplier evaluation and agreement processes.

- Fair labor practices throughout the supply chain.
- Strong environmental standards at the mine site, including demonstrated measures towards eliminating the use of mercury.
- Ensuring their purchase does not support conflict.
- Consistent supply of material with express shipping to meet just-in-time manufacturing models of larger companies and enable smaller bespoke jewelers to provide good customer service.
- Availability of local casters that will work with the material.
- Trustworthy program partners and market actors within the supply chain.
- Educational marketing materials for consumers.

Many of the participants understand that it is common for artisanal mining operations to not have the capacity to comply with their ideal responsible sourcing requirements and are willing to work with systems which support continuous improvement. These participants are willing to work with programs over time to source gold while also ensuring that continuous improvement goals are met. Continuous improvement elements that the participants were most likely to accept include mitigation of mercury before elimination, reducing environmental impact before investing in communities, having assurances on traceability without needing granular impact data, and working with a mass balance system rather than requiring traceability to a single mine of origin. Despite this group's willingness to work in a continuous improvement model, having assurances that the program partners are credible and trustworthy remained an essential requirement. This group also expressed that in exchange for working with a continuous improvement model, regular communication with the program stakeholders and consistent updates on the program's process, including any challenges or setbacks, is a requirement. For most, some degree of third-party assurance would be a requirement, even if not associated with certification. Recommendations for engagement using a continuous improvement model are suggested in the Conclusions and Recommendations section.

Transparency, traceability and due diligence

Every jewelry stakeholder interviewed emphasized the importance of transparency, traceability and due diligence in ensuring an ASM gold supply chain is responsible, particularly in reference to sourcing from CAHRAs such as eastern DRC. Traceability can be defined as “the process of tracking the provenance and journey of products (in this case gold) and their inputs, from the very start of the supply chain through to end-use.” Transparency refers to the disclosure of supply chain and sourcing information, including traceability information, to stakeholders and market actors.⁴ Any supply chain needs to decide which information should be transparent to which stakeholders and how often. Finally, due diligence in the context of mineral supply chains is understood as “acting with reasonable care,” “identifying, preventing, mitigating and remediating the actual and potential risks of contributing to activities that fuel violence and human rights abuses, and negative environmental impacts”. It enables companies to check that the gold entering their supply chain is sourced responsibly and provides a process for action if it should not be the case.⁵ There is a broad consensus of these definitions within the sector, however among supply chain actors, including jewelers, there is some confusion and variation in understanding of the terms and what they mean in practice.

Jewelers interviewed had inconsistent and often vague understandings of the concepts of transparency and traceability. This was particularly the case for Designer-Makers and SMEs. Their expectations of what information would qualify as sufficient transparency was variable, with limited detail. For example, some desire complete visibility and documentation of each step of the gold sourcing process, while others are most concerned by the level of visibility they have on the mining operations specifically. Many jewelers seemed unsure of what types of information

⁴ Conlon, C. 2019. Supply Chain Visibility: Traceability, Transparency, and Mapping Explained. BSR. <https://www.bsr.org/en/our-insights/blog-view/supply-chain-visibility-traceability-transparency-and-mapping>

⁵ European Commission. 2019. ‘What is Due Diligence?’ Leaflet. European Commission Due Diligence Ready! Portal https://ec.europa.eu/growth/sectors/raw-materials/due-diligence-ready_en

they need to monitor as part of their due diligence requirements according to the OECD Due Diligence Guidance, and what further information or higher level of transparency would be considered an additional bonus. This highlights the need for greater education and capacity building among smaller jewelers. It is possible that participants from larger businesses have a greater understanding of transparency and traceability because of their obligations related to investor and shareholder reporting, and greater exposure to legal requirements.

One third of participants have some responsible sourcing policies and processes in place, representing stakeholders from the SME, High Street, Luxury, and Manufacturing categories. Larger companies have established due diligence systems, but most do not have the means to conduct their own mine site visits and would need to rely on receiving sufficient documentation from the supply chain actors to inform their own due diligence processes. Designer-Makers and SME Retailers were more likely to operate without formal policies and instead rely on trust and word of mouth recommendations. Most would feel more comfortable sourcing gold from eastern DRC if it were stocked by their existing trusted supplier (Jewelry Manufacturer or refiner). There is a greater trend towards establishing more formalized systems among SMEs, than Designer-Makers, but those with supplier assessments in place, for example, are still in the minority (15%). SMEs and Designer-Makers emphasized having little capacity to do due diligence, so trusting the chain-of-custody information tied to the material is essential. They need to rely on the due diligence information shared by their immediate suppliers and there is a gap in understanding about what sort of information they need to monitor.

Respondents in the High Street, Luxury, and Manufacturing categories expressed greater concern for risk management and the need for gold provenances to meet internal due diligence requirements. They have more stringent requirements including provenance claim disclosures, third-party verification, and annual reporting by suppliers on their own supply chain due diligence. One High Street jeweler requires suppliers to report their refineries and any intermediate suppliers before committing to a sourcing agreement with the supplier. On the other hand, SMEs and Designer-Makers are less prescriptive in the information needed for internal due diligence, reflecting their lower capacity and knowledge regarding how to implement due diligence. Moreover, SMEs and Designer-Makers are more interested in storytelling impact data than larger companies, such as testimony from miners and documented footage from mine sites.

Responsible supply chain standards

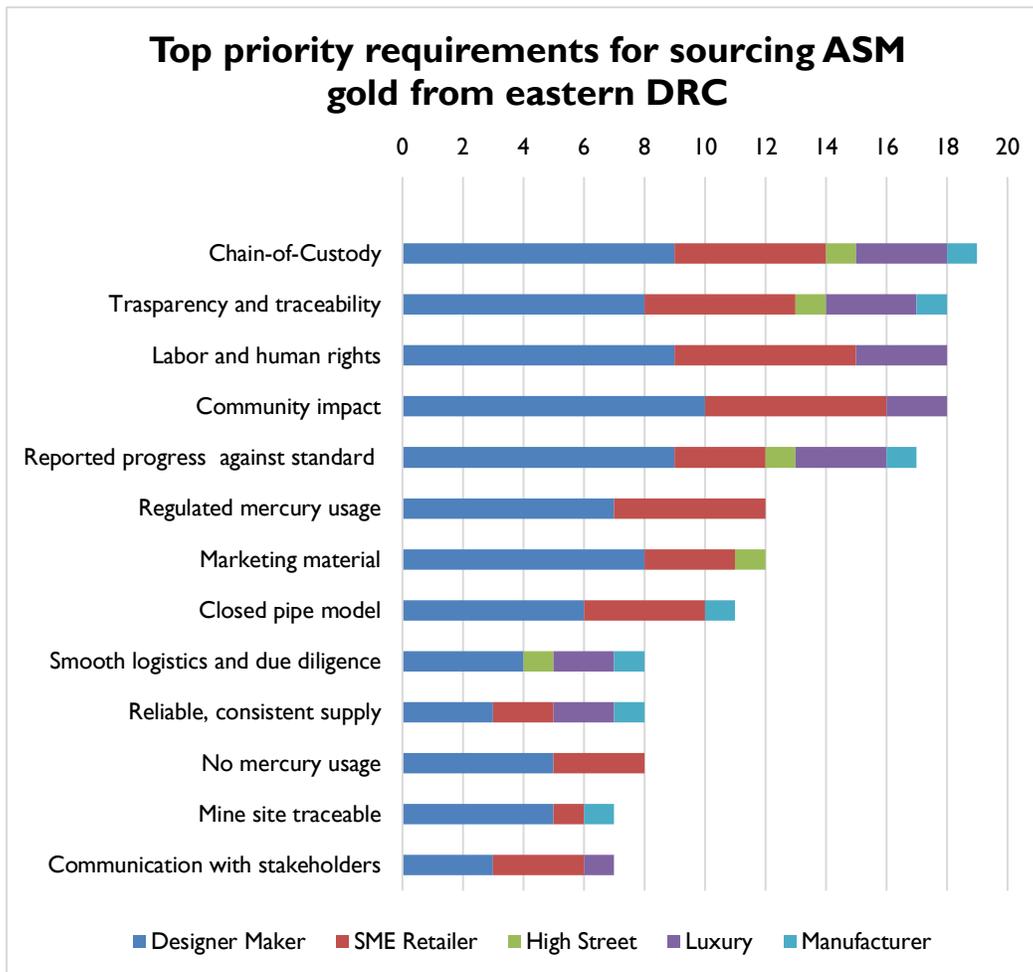


Table 5: Top priority requirements for sourcing responsible ASM gold from eastern DRC

When considering ASM gold sourcing, 26% of participants said they would require a certain level of third-party certification of the material or their supplier. However, others didn't specify what they understood by 'certified' and it is clear that many believe that responsible sourcing is not possible without certification. All respondents expect to engage with ASM gold sources by applying standards which are visible to them. However, most respondents would in principle accept a standard with built in continuous improvement, recognizing the challenging context of many ASM gold operations. Respondents already sourcing from existing ASM initiatives would expect to maintain the same level of socially responsible supply chain performance and criteria. Few cited the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, most likely due to lack of familiarity with the guidance.

15.3% of the participants are certified under the Responsible Jewellery Council Code of Practices standard – these represent actors in the Luxury and High Street categories. 35% of the participants are not certified by the Responsible Jewellery Council (RJC) – all representing the Designer-Maker and SME categories – suggesting that requirements related to the RJC standards mostly apply to High Street and Luxury category businesses. Larger jewelers interviewed would need gold from eastern DRC to be a recognized provenance by the RJC and meet the standards' ASM requirements, but this does not mean smaller jewelers would necessarily accept lower standards. The standard may

require the jewelry company to conduct regular mine site visits which is often not feasible financially or logistically. A responsible ASM supply chain needs to consider how to provide sufficient evidence that it meets common standards of responsible sourcing without downstream buyers needing to conduct their own mine site assessments. If gold from eastern DRC is not recognized by existing standards against which jewelers are audited, they would not be able to purchase the gold. As most respondents noted a requirement for third-party verification of the program, suggestions as to which standards would be acceptable were also made, including: Alliance for Responsible Mining and RESOLVE Code for Risk-mitigation for artisanal and small-scale mining engaging in Formal Trade (ARM), Responsible Jewelry Council Chain-of-Custody and Code of Practices, Responsible Minerals Initiative (RMI) Responsible Minerals Assurance Process (RMAP), LBMA Responsible Gold Guidance for Good Delivery refiners, and Responsible Source™ for Precious Metals Standard VI (Scientific Certification Systems (SCS) Global Services).

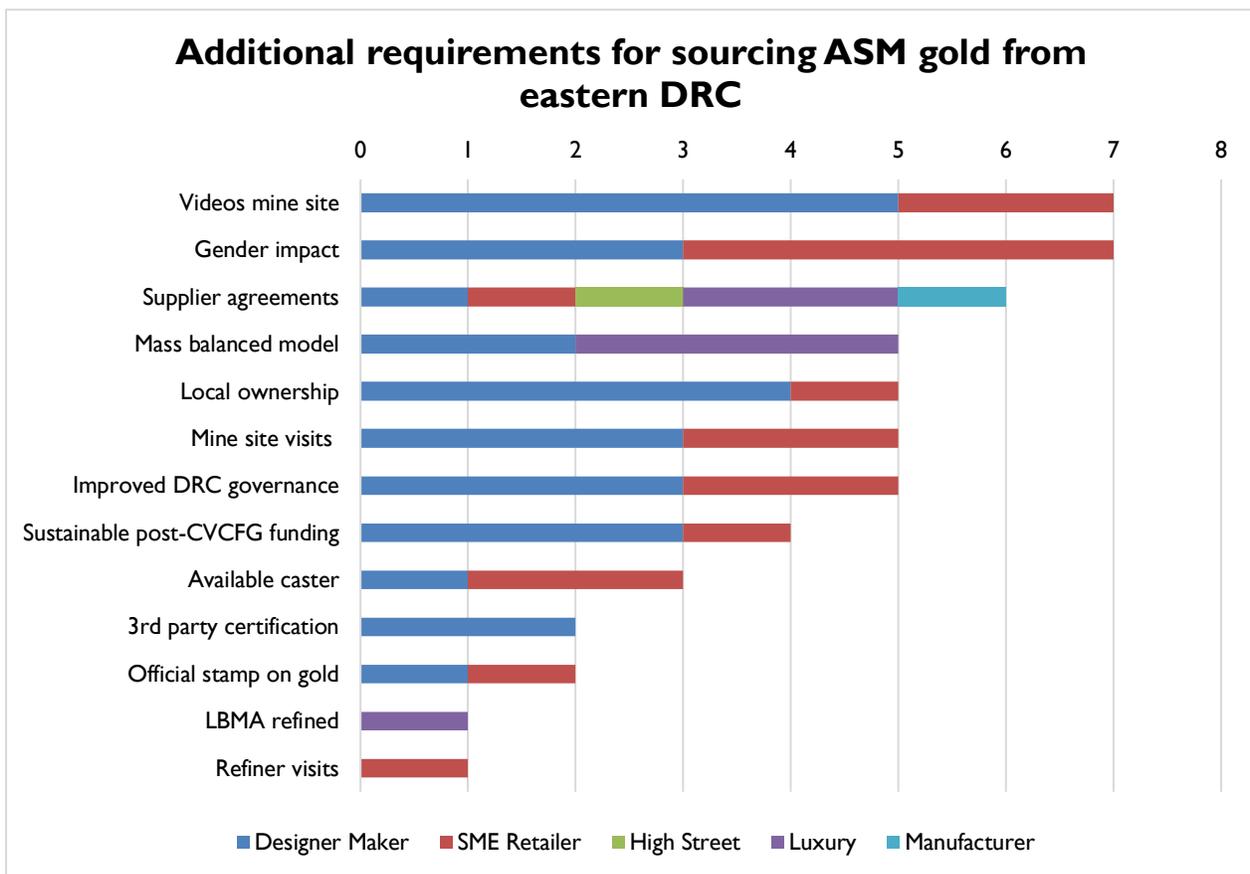


Table 6: Additional requirements for sourcing responsible ASM gold from eastern DRC

Measurable impact

38% of respondents require mechanisms for measuring the social, environmental, and economic impacts, with SMEs expressing the most desire for impact data (22%). The most highly desired impact data areas are mercury mitigation or elimination, local economic benefit, and evidence of fair labor practices. One respondent noted a desire to see data on conflict reduction and women’s empowerment. Some participants (19%) have previous experience with purchasing gold from the DRC, which likely informed their expectations for detailed impact data. Several respondents noted that they would like open communication on impacts, including setbacks and challenge areas. Fact-based, quantitative reporting is important to establishing trust in the program. While 77% of the participants are willing to engage with a continuous improvement model, most expressed a requirement to receive regular communications on progress with associated data points so that they can understand the impact of their purchases.

Cost, supply and production

The ability to offer artisanal gold at a reasonable price is a key requirement for market actors. The price should be competitive with other artisanal gold initiatives, however some participants expressed that no more than 4% to 10% above spot price would be commercially viable for them. While there is a willingness and expectation to pay more for responsibly sourced artisanal gold, participants noted pre-existing challenges with absorbing the higher cost, suggesting it would be easier if there were more consumer demand for the product. This was not a concern for all participants as at least two noted that they are comfortable passing this cost on to their customers and others have managed to transition their business model towards a higher end-product price.

In order to overcome the barriers identified by some with existing responsible ASM supply chains, availability of supply and reliability of quick delivery are essential requirements for market actors in all categories. Maintaining engagement with artisanal material is heavily dependent on the availability of the forms and alloys desired by the market actors. One participant expressed a desire to be able to place special orders in different karats or colors with her supplier in order to show the supplier where there was demand.

Lastly, SMEs and Designer-Makers need access to casters who will provide casting for their jewelry at a reasonable price (a key step in the manufacturing process) using the gold from the supply chain provenance. Most smaller jewelers prefer a closed pipe supply chain, with guarantees that the gold in their jewelry has not been mixed with gold batches from other provenances, which enables them to make specific provenance claims to their customers. There would need to be a caster within the closed pipe supply chain which follows the same standards and can guarantee the segregation of gold from the responsible supply chain and other gold cast at their premises. It is easier in terms of cost and logistics for casters to be able to mix gold provenances, in other words, breaking the closed pipe supply chain; this would be acceptable to a minority of small jewelers and as well as larger companies. Certified ASGM initiatives have demonstrated the feasibility of operating both open and closed-pipe value chains. Inability to access casting would pose a significant blockage for engagement for these market actors, several have not engaged with existing ASM initiatives because they cannot find a caster who works with the gold.

Marketing and communications

Market actors, particularly those in the SME and Designer-Maker categories, expressed requirements for educational and engaging marketing materials to be commercially viable due to the lack of consumer awareness of and demand for artisanal gold. One participant in the SME category also noted that such materials would be needed to educate their sales staff sufficiently. The specific types of materials requested include a website, videos, pictures of the mine site and miners, and digital downloadable materials. The content requested in these materials emphasizes a desire for quantitative and qualitative facts, as well as emotional stories. It is also important that the program provides clear information on the types of claims that can be made by market actors in their advertising. Several branding recommendations were made, including the suggestions to use source-specific branding, similar to single origin products in other sectors, like coffee. Another jeweler requested the gold be physically stamped with a reference to its Congolese origin by a government agency; they wanted to see that the supply chain was recognized as legitimate and generating value to the local and national economy by the government of the DRC. Many participants highlighted the need for a recognizable brand to be associated with the program and that well-known jewelry companies or individuals would need to champion the program to make it successful for others.

Impact of COVID-19

The travel restrictions and high volatility of gold demand tied to the COVID-19 pandemic present significant challenges in data-gathering, hindering accurate trend reporting and forecasting as the pandemic continues.

Impact on sales

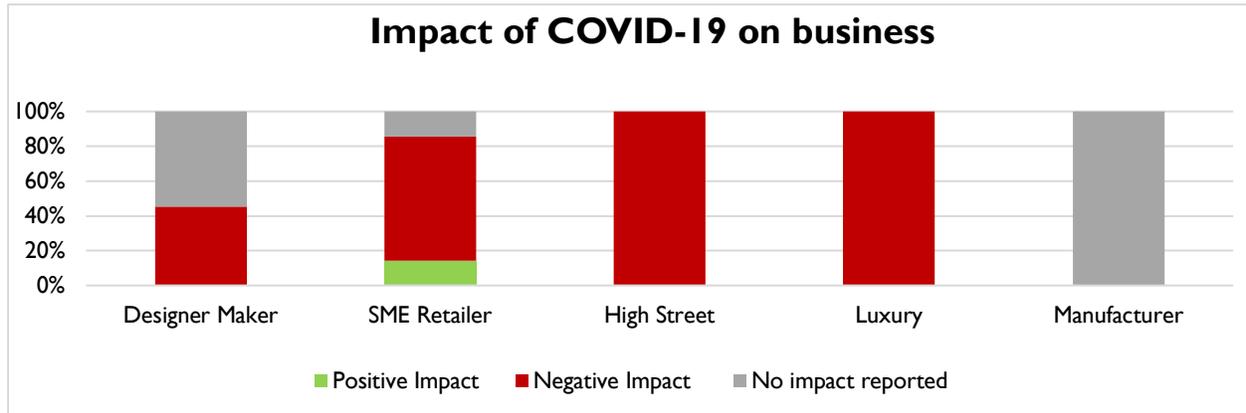


Table 7: Impact of COVID-19 on business

While the majority of the North American jewelry market saw a severe decrease in sales at the start of the pandemic, some acknowledged a return towards their usual sales levels. One exception was an SME which recorded record sales during this time; this was attributed to the desire for consumers to support small businesses sourcing gold from sub-Saharan Africa against the backdrop of growing media attention on responsible supply chains and inequalities exposed by the impacts of COVID-19. This participant, along with others, noted having a strong e-commerce platform as an important factor to their resilience during the crisis.

Changes to manufacturing and sales processes

Due to widespread lockdowns, transport and logistics were heavily impacted in jewelry supply chains. Wholesale and Made to Order models posed challenges because supply suddenly became unavailable, creating blockages for manufacturing and sales. Those who perform site visits as a form of due diligence were unable to access manufacturing facilities. The high price of gold tied to the economic crisis that resulted from the pandemic was also a deterrent for some participants to continue purchasing the same volume, resulting in some deferring to less costly materials, such as silver. Lastly, the pandemic along with the antiracism social justice movement that rose to prominence in the US during quarter two has catalyzed some respondents to reassess their business practices, including the suppliers and materials they use, in order to better align with personal or company-based values. Several SME jewelers said these events had made them consider sourcing ASM gold, when they previously would not have considered it.

Conclusions

Outlook for commercially viable conflict-free ASM gold supply chain

The North American jewelry market has been shaken by the impacts of COVID-19 on supply chains, trading restrictions and consumer demand. However, most jewelers are interested in sourcing responsible ASM gold. This has become more salient in 2020, against the backdrop of their growing awareness of the market's impact on artisanal mining communities and the increased prominence of social and economic injustice stemming from the growth of the Black Lives Matter movement in the US. Jewelers interviewed recognize the value of greater inclusion of responsible ASM supply chains within the sector. But until now, they have been constrained in sourcing ASM gold due to commercial, logistical and regulatory obstacles largely outside of their sphere of influence.

The greatest barrier for all jewelry stakeholders is the lack of client demand for responsible ASM gold jewelry. This stems from a lack of consumer awareness about the positive impacts of supporting artisanal mining communities and the draw of environmentally friendly recycled gold. There is potential that a broader audience will now be receptive to messaging on responsible jewelry supply chains, building on the growing consciousness of similar social and environmental risks within fashion supply chains. Zahabu Safi will need to stimulate demand if jewelers are going to be persuaded to source from eastern DRC. Independent SMEs and pioneering luxury jewelers will be the most likely initial allies for communicating the story of gold from eastern DRC to consumers, but they need the support of a strong brand endorsed by well-regarded jewelers, organizations, and potentially even celebrities, as well as tailored, emotive and factual communications assets to deploy.

When it comes to tackling other obstacles, larger jewelers and manufacturers would like the program's support to comply with legislative requirements (such as the Dodd Frank Act), manage financial processes (such as US bank's risk management systems restricting gold purchases in some jurisdictions), simplify the landscape of multiple voluntary frameworks (such the RJC Code of Practices), and facilitate dialogue between these stakeholders, carving out a route for easier recognition of ASM supply chains from eastern DRC. For smaller jewelers, Zahabu Safi could help with capacity building to support engagement with responsible sourcing, non-certification models and due diligence and providing greater exposure to the realities and challenges of gold mining, trading and refining. These next steps will go some way to addressing the gap between initial well-intentioned downstream expectations and the reality of what is feasible upstream.

Whilst jewelers have barriers, which they need support to tackle, and clear requirements when it comes to sourcing a new provenance of gold, most would be open to a supply chain that operates under the principle of continuous improvement. This is an important enabling condition for facilitating supply chains from eastern DRC. Smaller jewelers in particular recognize they are on their own journey and have become more open to the notion of progressive improvement within their supply chain. For jewelers to feel comfortable, the supply chain needs to have a robust chain of custody and offer clarity in terms of risk management and positive impact claims that can be made about the gold. There needs to be regular communication on the performance of miners against a benchmark of requirements, and demonstration of progress over time on key data points such as mercury use reduction.

Ultimately, the gold market analysis has shown that jewelers' sourcing decisions are not taken in a vacuum. Regardless of size, geography and position in the supply chain, companies are contending with commercial pressures, as well as compliance with legislation and responsible sourcing standards. On their journey to become more responsible businesses, they come up against obstacles which Zahabu Safi will need to help them address, though sustainable sourcing models need to be sector driven. The gold market analysis has highlighted the importance of public-private partnerships, multi-stakeholder collaboration, fostering market linkages between different supply chain segments and trade facilitation. Zahabu Safi is well positioned to be a conduit for these processes of change.

Annex I – About the Project

Launched in December 2018, the USAID Commercially Viable Conflict-Free Gold project, known locally as Zahabu Safi (Clean Gold), is a five-year project that builds on recent successes achieved by donor-funded initiatives to export responsibly produced gold to jewelry buyers in North America and Europe. The overall goal of the project is to establish a viable, responsibly sourced, artisanal and small-scale mining (ASM) gold supply chain originating from eastern DRC.

Zahabu Safi is working closely with the Congolese government and is creating multiple partnerships along the various nodes of the supply chain with cooperatives and exporters, refiners and downstream buyers of gold, especially in the jewelry and technology sectors.

Implemented by Global Communities (US) in partnership with Levin Sources (UK), Zahabu Safi brings unique qualifications and expertise to address the challenges, as well as take advantage of the opportunities, within the artisanal gold supply chain.

Artisanal and Small-scale Mining (ASM) is a significant driver of the DRC's economy, with many communities in the eastern part of the country relying on the ASM sector for their livelihoods. While a variety of national, regional, and international regulations have been put in place to address the illegal trade of conflict minerals, over 80% of ASM gold produced in the DRC is exported illicitly. Gold, in particular, continues to fuel conflict in eastern DRC. The ASM gold supply chain is beset with challenges along the whole supply chain and has often relied on donor resources to address persistent weaknesses.

Zahabu Safi takes a market-systems approach to push the supply chain towards commercial viability and scale, by:

- **Increasing demand for and co-investment in responsibly sourced ASM gold from eastern DRC.** Zahabu Safi will carry out activities to increase the reputation, visibility and availability of responsibly sourced gold from eastern DRC that meets International Conference of the Great Lakes Region (ICGLR) and the Organization of Economic Cooperation and Development (OECD) due diligence requirements for responsible minerals supply chains;
- **Increasing the volume of exports of responsibly sourced ASM gold from eastern DRC** by strengthening the capacity of upstream and midstream supply chain actors to adhere to responsible supply chain traceability activities and comply with OECD due diligence guidance; and
- **Improving the commercial viability of ASM gold cooperatives** through targeted and participatory training to ensure profitability and longevity through responsible market linkages, improved membership management and good governance structures put in place to promote positive impacts on ASM communities.

To achieve objective one, Levin Sources has conducted a gold market analysis in Europe (Phase I in 2019) and North America (Phase 2 in 2020). The research was conducted over two phases corresponding to year one and year two of the Zahabu Safi project. The two geographies were chosen primarily because jewelers in both continents are already sourcing responsible ASM gold and consumer surveys consistently reveal greater interest in ethical jewelry on average in these regions. The market analysis serves to investigate the current market demand for ASM gold, reveal motivations, barriers and requirements to sourcing ASM gold and identify potential market actors who would be interested in engaging further with the program among different market segments in each geography. This report follows the gold market analysis of the North American jewelry market conducted between May – September 2020 by Levin Sources and Christina T. Miller Consulting. The Market Analysis Phase I report can be found [here](#).

Annex 2

Table 1: Characteristics of Jewelry Market Actors

Designer-Maker	
Size	Small (workforce: 1-3 employees, 1 workshop or store)
Supplier	Jewelry Manufacturer or Refined Gold Trader
Source	Small, infrequent volumes of refined gold; grain, sheet, wire. Manufactured gold jewelry components; chain, fastenings.
Service	Design and manufacture small collections and/or bespoke jewelry of medium value.
Clientele	Consumers (Local, National)
SME Retailer	
Size	Small to Medium (Workforce: 3-50 employees, Stores: 1-10)
Supplier	Jewelry Manufacturer or Refined Gold Trader
Source	Medium volumes of refined gold; grain, sheet, wire. Manufactured gold jewelry components; chain, fastenings.
Service	Design and manufacture small collections and/or bespoke jewelry of medium value.
Clientele	Consumers (National, English Speaking Countries)
Luxury Jeweler	
Size	Large (Workforce: 50+ employees, Stores 10+)
Supplier	Jewelry Manufacturer or Refiner (if producing own collection)
Source	Refined gold
Service	Design and manufacture multiple jewelry collections of high value.
Clientele	Consumers (International)
High Street Retailer/Jeweler	
Size	Large (Workforce: 50+ employees, Stores 10+)
Supplier	Jewelry Manufacturer or Refiner (if producing own collection)
Source	Finished jewelry or refined gold
Service	Sell finished jewelry by one or more brands of low to medium value. May design and manufacture own collection.

Clientele Consumers (National and International)

Jewelry Manufacturer

Size Medium to Large

Supplier Refiner or Refined gold Trader

Source Large volumes of refined or unrefined gold of varied provenance, dependent on in-house refining capabilities.

Service Manufacture jewelry components or finished jewelry. May also refine or recycle precious metals.

Clientele Jewelers - Designer-Maker, SME, or High Street Retailer/Jeweler (International)

Platform

An organization working to advance responsible gold sourcing. May include nonprofits, trade associations, and standard setting bodies. Often membership organizations for jewelry businesses. Has strategic oversight of sector trends as well as knowledge of specific challenges and goals for responsible sourcing of their members related to responsible ASGM sourcing.

Methodology

SME Retailers represent the highest proportion of stakeholders engaged; 41% of the total number of stakeholders invited and 38% of those interviewed. Designer-Makers were the category with the second highest level of engagement, representing 23% of those interviewed. 20 Luxury stakeholders were invited and represent 12% of those interviewed. High Street jewelers and Jewelry Manufacturers made up 4% each of those interviewed. Several platforms dedicated to responsible jewelry practices also engaged in interviews representing 15% of those interviewed. Designer-Makers represent the category of jewelry market actors with the highest engagement rate; 11 were invited and 6 (54%) interviewed. Of the 53 SMEs invited, 11 (21%) interviewed. Engagement with Luxury and High Street stakeholders was significantly less. 20 Luxury stakeholders were invited, 3 (15%) were interviewed. 24 High Street stakeholders were invited, 1 (4%) interviewed. 16 Jewelry Manufacturers were also invited, with 1 interviewed, an engagement rate of 6%. One Advisor, a human rights attorney specializing in conflict-affected regions and developing a jewelry brand, was also interviewed.

In recent years, several platforms have been created or adapted to address responsible sourcing for the North American jewelry industry. These platforms include nonprofits, trade associations, and standard-setting bodies. Because these platforms offer their members guidance on responsible sourcing, they were invited to interview and provided insights on their members' challenges and goals for responsible sourcing, with emphasis on ASM gold supply chains. Five Platform stakeholders were invited and all were interviewed. Key statistics on engagement reflect that Designer-Makers and SMEs value responsible gold sourcing programs and recognize a role for their businesses in advancing programs such as CVCFG. It should be noted that this pool of stakeholders represents a small section of the North American industry that is particularly keen to learn and engage with responsible sourcing and is not representative of the entire North American sector.