



INCLUSION OF ARTISANAL AND SMALL-SCALE MINING IN THE FORMAL FINANCIAL SECTOR IS CRUCIAL TO TACKLE CURRENT MALPRACTICES IN THE GOLD INDUSTRY

UNFAIR PERCEPTIONS OF ASGM SECTOR

Artisanal and small-scale gold mining (ASGM) suffers from a dubious reputation among micro-credit financiers, impact investors and the private sector worldwide. There is a persistent perception that investing in and financing of ASGM comes with a high level of risk. However, this perception is only part of the story.

A recent research report commissioned by Solidaridad and carried out by the Global Initiative against Transnational Organized Crime has examined the key reasons that create this imbalance. The ASGM sector is witness to many harmful practices, which have a negative impact on both people and the environment. Moreover, illicit trading channels for ASGM gold further fuel money laundering by criminals. The sector is in dire need of change.

The research ultimately shows that not financing ASGM mines is a bad choice because it makes it impossible to improve the current situation and fosters the negative status quo. Non-engagement with ASGM cannot be described as a neutral position; on the contrary, the negative financial, social, and environmental outcomes of not engaging can be more accurately described as risks of non-engagement.

However, at this moment in time we need to be realistic: the sector requires the combination of impact investment and grant funding, as the ASGM sector also needs investment in knowledge and capacity building.

INCLUSIVE FINANCE

Inclusivity is an important aspect that needs to be addressed, and it can potentially open up opportunities for responsible investment in the ASGM sector. Gender and youth inclusive investments are crucial. Around half of the people who work in the ASGM sector are women. Statistics have also shown that women are more likely to pay back their loans compared to men. Inclusivity, therefore, offers a smart strategy for investors looking to get involved in ASGM financing.

Artisanal and Small Scale Mining accounts for nearly 550t/y of gold production, or around 15% of global supply (Metals Focus 2019). This represents a trade value of roughly 25 Billion dollars.

ASGM REQUIRES FORMALIZED FINANCING

Non-investment in ASGM mines offers a good example of the financial sector's ESG (Environment, Social, Governance) criteria conflicting with a "do good" financing approach. The financing of the ASGM sector goes together with high risks: both corruption and money laundering are an issue in the sector. The current situation of not financing, however, perpetuates this system. We can only break through the current negative cycle by gradually formalizing finance for this sector.


KEY RESEARCH FINDINGS

The researchers have interviewed a variety of actors in the gold industry and the ASGM sector. The following are the key findings of the research report:

- **Different actors have varying levels of familiarity with the ASGM sector.** Investors tend to have little to no knowledge of the sector, beyond mainstream NGO and media reporting. Gold buyers, in particular refiners and jewellers, tend to have greater knowledge of the sector.
- **Perceived risks of engaging with ASGM are expressed in general terms.** Environmental harms tend to be highlighted slightly more often than social harms. When pressed on specific concerns, child labour and mercury use were frequently mentioned.

- **The risks of not engaging with ASGM are not well understood.** There is a lack of knowledge on how current (largely informal) ASGM markets operate, and how de-risking policies and disengagement increase the vulnerability of the sector to harmful practices.
- **Currently, private sector actors are largely unwilling to finance ASGM operations.** Formal financial investors mostly see the sector as too risky and are not willing to increase engagement. Many gold buyers are not comfortable financing ASGM operations, nor do they see it as their role to do so.
- **Responsible sourcing of ASGM gold is currently not economically sustainable.** High fixed costs by volume (transportation and due diligence costs) together with low and unpredictable production volumes currently make responsible sourcing of ASGM gold uneconomical. While certification may encourage responsible sourcing of ASGM gold, it is important to acknowledge that certification is a very lengthy process and does not always include clear gains for the miners. Therefore, it is essential to encourage investment in and sourcing from non-certified ASGM mines which, albeit imperfect, are working to establish and upscale good practices.
- **The rise in responsible investment is an opportunity to initiate and grow formal financial sector engagement in the ASGM sector.** Many private sector actors are moving away from ‘do no harm’ principles towards ‘do good’ principles, and are working to identify opportunities for positive impact.
- **ASGM may suffer if it continues to be perceived as an undesirable sector for responsible investment, beyond rehabilitation.** In particular, if the perception of the financial sector persists that ASGM, and extractives more broadly, are inherently bad, then barriers to accessing finance and financial services could increase further.





TDI
SUSTAINABILITY

Solidaridad and TDI Sustainability will be publishing a report at the end of 2019, based on their combined in-depth research on the barriers to financing ASGM and how they can be overcome.

JOIN US!

Together with a variety of stakeholders throughout the value chain, Solidaridad works towards more responsible sourcing of gold in our projects worldwide. When accompanied by controlled financing, formalization, and positive engagement, the ASGM sector offers huge potential, not in the least for financiers and impact investors. What the ASGM sector really needs is breaking out of the vicious circle.

Our value chain approach involves working together with gold buyers, impact investors and financiers as partners. We do not shy away from tackling the challenges in artisanal and small-scale gold mines, and we invite you to join us!

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