

Pilot initiative. Financial inclusion for ASM in Antioquia

Characterization and progress

May 2022

SOLIDARIDAD has been implementing the Practice for Change project in Colombia since 2020 with support from the Netherlands' Ministry of Foreign Affairs. Within the framework of the theory of change of Solidaridad's Responsible Mining program, the project seeks to foster sustainable relationships between artisanal and small-scale mining organizations (ASM) and the private sector along the supply chain as pillars of development and support for mining formalization, as a scalable model through public policies to other ecosystems.

In this context, Solidaridad and international trader C.I. ESLOP -a company dedicated to the trade of precious minerals sourced from artisanal and small-scale miners in Colombia, advocating for their progress and adoption of best practices-, decided to jointly execute a pilot initiative aimed at the financial inclusion of the ASM population. A need that is becoming increasingly urgent. The segment that was sought to impact is made up of formalized miners who integrate ESLOP's supply chain, a chain rigorously monitored in compliance with international Due Diligence standards, and who until now have had difficulties accessing financial services. With this population, financial inclusion seeks to provide an additional layer of transparency to the mineral exploitation and trading process and more rigorous traceability efforts, bringing benefits to producers and buyers.

Financial inclusion is considered a key strategy to promote economic development, proof of this is that 8 of the 17 United Nations Sustainable Development Goals include objectives related to it. The historically poor penetration of financial services among ASM producers implies large opportunity costs for the sector in terms of its potential growth, since it limits the investments that producers can make in improving their operations and adopting better social and environmental practices; prevents them from connecting directly with global chains, as they are unable to receive and make payments through the financial system; and, finally, it creates transparency gaps in the supply chain related to the use of cash. These gaps are a particular cause for concern in countries like Colombia, whose gold-producing areas are part of the so-called Conflict and High-Risk Areas (CAHRAs) as defined by the European Union¹.

¹ CAHRAs are "areas identified by the presence of armed conflict, widespread violence, including violence generated by criminal networks, or other risks of serious and widespread harm to people. Armed conflict may take a variety of forms, such as a conflict of international or noninternational character, which may involve two or more states, or may consist of wars of liberation, or insurgencies, civil wars. High-risk areas are those where there is a high risk of conflict or of widespread or serious abuses. Such areas are often characterised by political instability or repression, institutional weakness, insecurity, collapse of civil infrastructure, widespread violence and violations of national or international law" OCDE (2016) Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. See also: <https://www.cahraslist.net/>

This report will present the pilot initiative that is being implemented and the preliminary results of its baseline characterization, information that will guide the continuity of work by solidaridad and may shed light on this type of process in Colombia and similar contexts.

The initiative

The intervention that is being implemented combines a financial education component in a hybrid model (in part digital and in part through face-to-face workshops), and a support component for financial service providers in adapting and optimizing their client knowledge and due diligence processes to adapt to the ASM sector. To date, progress has been made in the first component, and its initial results will be presented below.

71 artisanal and small-scale miners from the municipalities of Frontino, Nechi, Taraza and Caucasia in Antioquia have participated so far receiving training on key elements of personal finance, appropriate use of financial products and how this can bring benefits to them and their communities.

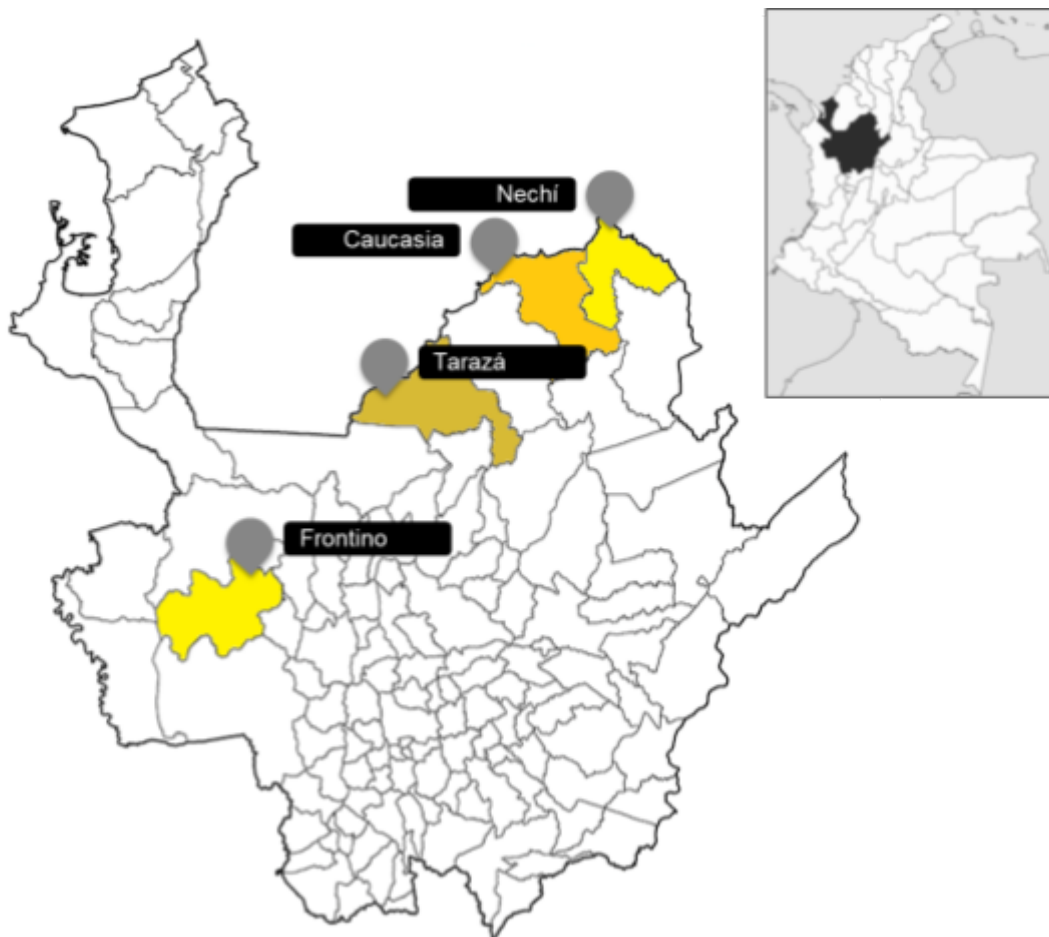


Fig. 1. Nechi, Frontino, Taraza and Frontino location in Antioquia and Colombia.

The training was designed with a mixed methodology that combined the introduction of key topics through virtual training modules that were hosted on Solidaridad's Agro Learning platform and face-to-face workshops in the municipalities and mining sites. Four training modules were proposed, detailed in Figure 2.



MODULE 0.

Sensibilization

- Subtopic 1. What is financial inclusion and why is it important for the ASM sector.
- Subtopic 2. Due diligence and risk mitigation.
- Subtopic 3. What does my bankarization as an artisanal or small-scale miner imply? (legal and tax aspects).



MODULE 1

Appropriate use of personal finances (healthy financial habits)

- Subtopic 1. Savings, a futuristic vision in personal finance.
- Subtopic 2. Efficient use of a savings account.
- Subtopic 3. The family budget, a way of anticipating needs.
- Subtopic 4. Some ideas about smart credit management.



MODULE 2

Small-scale mining, resources and efficient trade

- Subtopic 1. Know your activity.
- Subtopic 2. What resources do you have and what do you need to use them.
- Subtopic 3. Deep dive on credit and its intelligent management.
- Subtopic 4. Marketing a good product.

MODULE 3

ASM profitability

Fig. 2. Module's content and photo registry of trainings.

These modules were delivered between November 2021 and March 2022. The first two were offered to all 71 participants, and the last two only to key personnel of the small-scale operations (administrators, owners, partners, accountants).

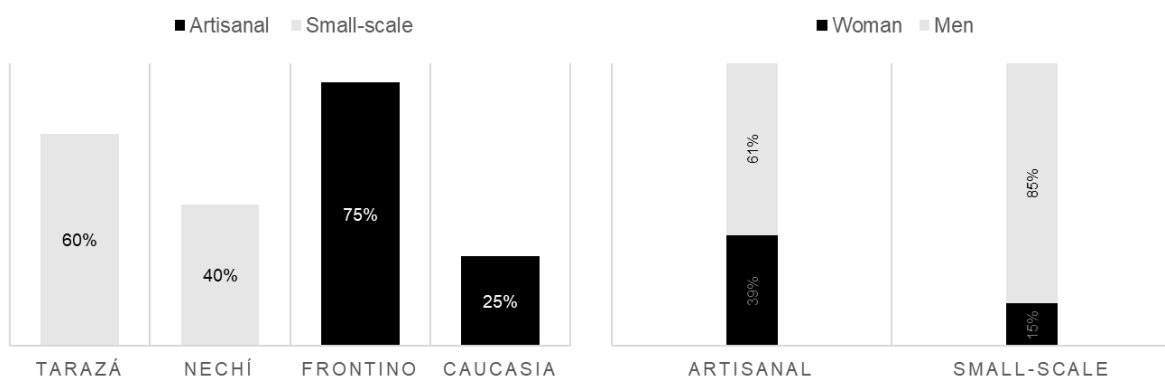
Initial characterization

Prior to the start of these trainings, Solidaridad carried out a series of surveys to build a preliminary characterization that would allow us to know the conditions, needs and potential of these populations. This preliminary characterization included 31 surveys (13 corresponding to artisanal miners and 18 to small-scale miners). This preliminary characterization does not intend to be a reflection of the sector as a whole, but rather to show a particular panorama that can inform similar interventions and highlight the sector’s heterogeneity. It is important to mention that, at the beginning of the process, this population was in a state of significant progress in terms of inclusion, due to its relationship with CI ESLOP, who has been making significant efforts in terms of banking its suppliers in recent years, a condition that is not found in many other mining areas and communities.

Key findings.

40% of the artisanal mining group that participates is made up of women, as well as 15% of those who participate as personnel of small-scale mining organizations, which reflects the important presence of women in artisanal mining, where they find an important income option to support their families. This is an important population whose specific needs must be studied and taken into account.

FIG 3. Trained miners



85% and 78% of artisanal and small-scale mining participants, respectively, have completed primary or secondary education and the vast majority of them can read and write, which may be an atypical finding when compared to more remote areas than the rural areas close to urban centers in which these surveys were applied. It is important according to this type of findings, not to aim to provide generic solutions, each population has different needs and capacities.

Most of them have more than 5 and sometimes more than 10 years of working in mining.

FIG 4. EDUCATION LEVEL

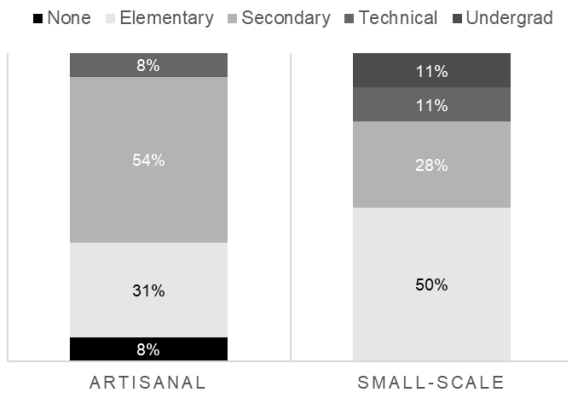
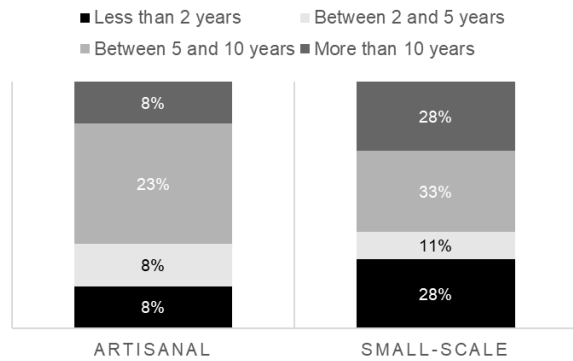


FIG 5. HOW LONG HAVE YOU BEEN WORKING IN MINING?



Key findings. Financial inclusion.

in the group of participants, advances can be observed in access to banking services resulting from the previous work of our private sector partner (CI ESLOP as a buyer of the mineral of this population that has made an effort to bankarize its chain). Among artisanal miners, 46% had an active savings account at the start of the pilot; among the small-scale miners, this percentage was 67%. Despite these positive numbers, it is important to mention that, although they claimed having active accounts, many of them do not make regular use of them or affirmed that they only used them to receive their salary or payment for the sale of their mineral and withdraw all the cash upon receipt of those payments (Figures 8 and 9).

FIG 6. DO YOU HAVE A SAVINGS ACCOUNT?

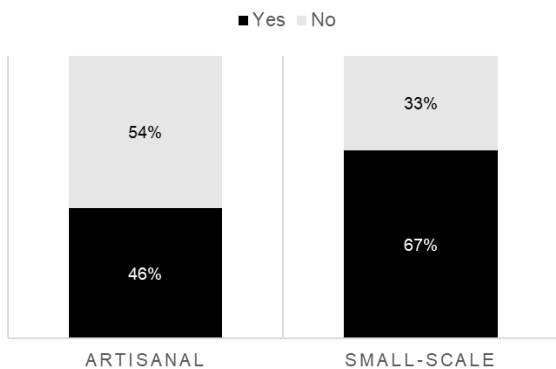
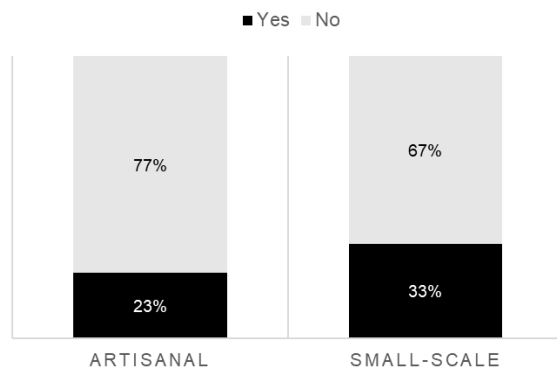


FIG 7. DO YOU HAVE OR EVER HAD A BANK LOAN?



In the mining areas, the use of this type of products is very limited, since few businesses accept cards or electronic payments and miners do not usually make online purchases, for example. This, however, is changing with the generational change, younger men and women miners, were the ones who most often affirmed making purchases and transfers over the Internet or using savings services to plan future purchases.

Regarding access to loans, a small number of miners stated that they had accessed this service, all stating that they did so in relation to other economic activities they carry out, such as trade, agriculture or cattle raising.

At the level of small-scale mining organizations, the 3 that currently participate have been making efforts to have active savings accounts, however, they have had difficulties in which, due to improper use of them (making withdrawals in cash for large amounts on a constant basis, using their personal accounts to manage money from the operation, etc.), these have been blocked or cancelled.

With this population (administrators, partners / owners and accountants), we have been working to make them aware of the proper use they should give these products so they can keep their accounts active, attesting to having a stable and well-managed operation. This demonstrates the importance of financial education for the achievement of inclusion objectives, it is important not to focus only on efforts to increase the supply or penetration of products.

FIG 8. WHICH IS YOUR PREFERRED PAYMENT METHOD?

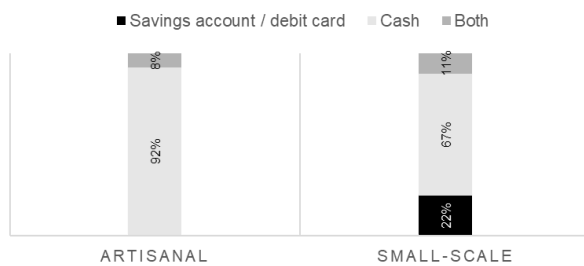
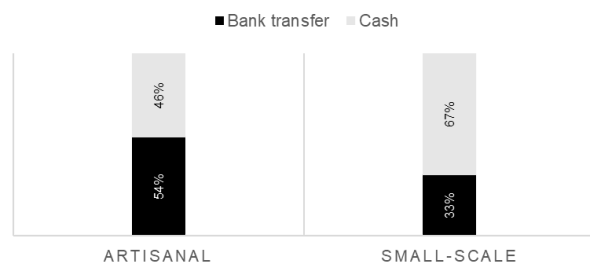


FIG 9. HOW DO YOU RECEIVE YOUR SALARY / PAYMENT?



Some findings and lessons learned from the first trained cohort.

From this initial characterization, the Solidaridad team implemented the 4 training modules through 5 months in late 2021 and early 2022 with periodic visits to the mining areas. The participants were open and participatory during the workshops, expressing their fears, doubts and expectations about banking. In the 4 municipalities we found people between the ages of 18 and 65, who expressed different perspectives about their approach to financial products, from total ignorance and scepticism, especially in the older participants, to daily familiarity among younger miners who use their cell phones mainly to receive and make payments.

The savings capacity and habits of this population is somewhat limited, especially among artisanal miners who receive lower incomes. Their places of residence, for the most part, have poor banking infrastructure (in the municipality of Nechi, for example, they stated not to have any ATMs, in Frontino, there is only one) and they are far from urban areas. One aspect in which they claimed to be getting closer to these products was to send and receive money from relatives, acquaintances and business partners in other municipalities, which has been increasing since the start of the pandemic caused by COVID-19.

A recurring finding was that of various myths related to banking and its interaction with tax obligations and the receipt of subsidies by the Government. Some miners claimed that by using savings accounts or debit cards, they could be exposing themselves to paying undue taxes or being excluded from social benefits. With the help of the courses, it was possible to clear up these doubts and generate greater confidence. Similarly, some miners were wary of sharing their business information with third parties, due to bad experiences in the past. This type of doubt was also discussed and reassurance was given about the handling of information by banking entities.

The miners appreciated the dual modality of the training and were open to receiving other types of training through this format. It is evident that for them, using appropriately banking services is already part of their commitment to the formalization process and responsible production of gold.

The project currently plans to expand the scope of the training to other areas in Colombia.

Conclusions

In the first phase of this pilot, we have found a population that is becoming familiar with financial services and is becoming less skeptical of them, but this has not happened spontaneously, it is a consequence of the constant work of allies throughout the supply chain that support these efforts, and the progress in the regulatory framework that allow this work to be carried out on the ground, achieving goals and learning how to do things better. Banking the gold supply chain from the source can bring many benefits at the local, national and global levels, but interventions tailored to different populations and their needs are required. Financial inclusion is one of the steps that lead to responsible, traceable gold production, which brings benefits and improves the quality of life of producers and strengthens the entire supply chain.



Fig. 10. Participating miners. Nechí.