



NATIONAL PROGRAM FOR ENVIRONMENTALLY SOUND MANAGEMENT AND LIFE-CYCLE MANAGEMENT OF CHEMICALS - PROJECT

"Development of a financial product to be used in the Artisanal and Small Scale Gold Mining sector - ASGM."

PRODUCT 3. Proposal for existing products that are viable to be strengthened and/or a new financial product for the ASGM sector.

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Product 3: Proposal of existing products that are viable to be strengthened and/or a new financial product for the ASM sector.

1 Identification of a financial institution that can offer financial products for the ASM sector

Based on the analysis of the demand and supply of financial products for the ASM sector carried out in the previous products, it was identified that the financial institution with the most significant potential for implementing this type of credit is BanEcuador B.P.

BanEcuador is a financial banking institution whose aim is *"the provision of financial services for credit, savings and investment, under the criterion of financial intermediation of public and private resources, serving medium-sized enterprises and associative enterprises in production sectors, mainly agribusiness, commerce and services, with a focus on local development and preferably in marginal urban areas, contributing to the strengthening of the "National Plan for Good Living", through first and second floor banking mechanisms. BANECUADOR B.P. will establish within its financial operations the "Banco del Pueblo" (Bank of the People), through which special and specific financial products and services will be developed to cover the financing needs of the micro and small enterprise sectors, under preferential financial conditions."*¹.

For the fulfillment of its purpose, BanEcuador B.P. may carry out active operations such as the granting of mortgage loans, pledges, unsecured loans and any other type of loans authorized by the Monetary and Financial Policy and Regulation Board (JPRMF²), among others. BanEcuador B. P. offers financial products and services to the following market segments:

Table 1: Market segments served by BanEcuador

Segment	Description
Individual and family production units	Entrepreneurial families and women who benefit from the Human Development Bond, who work and cultivate the land, raise animals, produce goods, make handicrafts, engage in commerce, and/or provide services.
Associative productive units	Popular and solidarity economy organizations whose aim is mainly agricultural production, trade of crops, trade of goods and services, self-supply of raw materials, inputs, tools, technology,

¹ <https://www.banecuador.fin.ec/wp-content/lotaip/2017/noviembre/juridico/enlaces/DECRETON.20.pdf>

² JPRMF is Junta de Política y Regulación Monetaria y Financiera



Segment	Description
	equipment, and other products, or trade their production in solidarity and self-managed way under the principles of the Organic Law of Popular and Solidarity Economy.
Communal production units	Organizations linked by territorial, family, ethnic, gender, age, care of nature, urban or rural, or communes, communities, people, and nationalities that, through joint work, produce, trade, distribute or consume goods or services under the principles of the Organic Law of Popular and Solidarity Economy.
Small and Medium Enterprises - SMEs in production, trade and/or services	Individual, family, or business production units: Individuals and companies whose sales exceed USD 100,000 in the last year.
Entrepreneurs	Productive undertakings, especially those generated by young people, recent graduates, and people in general who do not have experience in independent economic activities.

Source: Own development based on (BanEcuador B.P. (a), 2019)

Compared to the established segments, BanEcuador B.P. offers the following products:

Table 2: Financial products by market segment

Segment	Financial product
Individual and family production units	Priority groups Artisanal Credit Multiply Savings Credit Agricultural credit Consumer credit SOS Credit
Associative productive units	Credit for Inclusive Businesses Credit for Associations SOS Credit
Communal production units	Community Organization Credit SOS Credit
Small and Medium Enterprises - SMEs in production, trade and/or services	SME credit Stockbreeder Credit Palm Credit Banana Credit SOS Credit
Entrepreneurs	Youth Impulse Credit Entrepreneurship Credit Female Entrepreneur Credit

Segment	Financial product
Microcredits	Microenterprise Credit

Source: Own development based on (BanEcuador B.P. (b), 2019)

Based on the review of the different financial products existing in BanEcuador B.P. as well as on meetings held with the bank's team, it was agreed that it is not necessary to create a new financial product because the existing products can be adapted to the needs of the miners, which we could identify.

The financial product that has higher possibilities of being used by the mining sector that wishes to become formal and/or reconvert production to a mercury-free production is the Associative Credit. While for women miners (Jancheras) who want to change their productive activity, the credit that has the potential to support them is The Entrepreneurial Credit.

2 Proposal for adjustment to identified financial products

The proposal for adjustment to the identified financial products will start from the review of the legal basis that would support the motivation for the inclusion of the mining sector within the destinations of the credits, and then suggest some modifications to the general conditions of the loans and specific to the files of the identified financial products, as well as the management model for their operation.

2.1 Justification and legal framework

The main regulatory bases that would justify the ASM sector having access to the current financial products identified in BanEcuador are:

Table 3: Legal bases that justify that the ASM sector should have access to the current financial products of BanEcuador B.P.

Regulation	Article	Description
Constitution of the Republic ³	308	... The State shall promote access to financial services and the democratization of credits...
	310	The aim of the public financial sector shall be the sustainable, efficient, accessible, and equitable provision of financial services. The credit that it grants will be oriented in a particular way to increase the productivity and competitiveness of the productive sectors...
	311	... The service initiatives of the popular and solidary financial sector and the micro, small, and medium productive units will receive differentiated and preferential treatment from the State, insofar as they promote the development of the popular and solidary economy.
Mining law ⁴	6	... The State shall establish mechanisms of promotion, technical assistance, training, and financing for the sustainable development of artisanal and small-scale mining. It will also develop reward systems for

³ (Constitución de la República del Ecuador, 2008)

⁴ (Mining Law, 2009)



Regulation	Article	Description
		environmental protection and the generation of more efficient production units.
	49	... in the case of gold from small-scale mining and artisanal mining, the Central Bank of Ecuador will trade it directly or through public and private economic agents previously authorized by the Bank. The Monetary and Financial Policy and Regulation Board, through regulation, shall establish the preferential right of purchase of gold by the Central Bank of Ecuador to public and private economic agents authorized by the Bank.
	149	Direct or indirect gold purchases made by the Central Bank of Ecuador, as well as purchases made by public and private economic agents duly authorized by the Bank itself, shall be subject to zero value-added tax.
	Eighth general provision	The State, through the Sectorial Ministry, the National Institute of Geological, Mining and Metallurgical Research and the Ministry of the Environment, will develop training and technical assistance programs aimed at all miners and small miners, which will be carried out periodically. Similarly, the State, through public banks, will seek to create financial products for the acquisition of modern and environmentally friendly technology.
Organic Monetary and Financial Code (Book I)⁵	36, number 32	<u>Functions of the BCE:</u> Trade gold from small-scale and artisanal mining, directly or through public and private economic agents, which must be previously authorized by the Central Bank of Ecuador.
	56, number 4	...powers of the BCE to implement policies to reduce the cost of credit and financing through the investment of surplus liquidity and the rediscount window; to encourage the formalization of transactions through the National Payments System, its instruments and services; and for the early detection of unusual or suspicious transactions that may be related to activities related to money laundering.
	135	The Central Bank of Ecuador may intervene in the purchase, sale, or negotiation of gold. It may make operations in foreign exchange or gold in the future or through other derivatives, in the manner and under the conditions authorized by the Monetary and Financial Policy and Regulation Board.
	149	The credit guarantee system should be created as a mechanism aimed at strengthening credit obligations or obligations and guarantees intended to ensure compliance with contracts covered by the Organic Law of the Public Contracting System for persons who are unable to complete projects with the national financial system or contracts as providers of the State due to lack of guarantees, such as first-time entrepreneurs, single mothers, persons in human mobility, persons with disabilities, young people and other persons belonging to priority attention groups.
	194, letter a number 12	Financial institutions may carry out the following operations following the authorization granted by the respective control body: ... 12. Buy or sell precious minerals.
	209	JPRMF ...will be able to regulate through regulations the orientation and direction of the credit operations of the entities of the national financial system... For this purpose, it will consider, among others, the segments, interest rates, guarantees, and credit limits.
Organic Law of Popular and Solidarity Economy⁶	79	The maximum lending and deposit interest rates that the organizations of the Popular and Solidarity Financial Sector shall set in their operations shall be those determined by the Monetary and Financial Policy and Regulation Board.
	132, number 3	Promotion Measures... 3. Financing: The Corporation and the public banks will design and implement specialized and differentiated financial products and

⁵ (Código Orgánico Monetario y Financiero, Libro 1, 2014)

⁶ (Ley Orgánica de Economía Popular y Solidaria, 2011)

Regulation	Article	Description
		services, with long-term credit lines for the productive activities of the organizations covered by this law. Public sector institutions may co-finance investment plans, programs, and projects to promote and develop productive activities based on the co-responsibility of the beneficiaries and the signing of cooperation agreements. The resources will be channeled through the organizations of the Popular and Solidary Financial Sector.

Source: Own elaboration based on the review of current regulations.

2.2 Proposal for amendments to the general conditions for credits

The main modifications suggested for inclusion relate to destination, deadlines, grace periods, and restricted credit operations.

The destination is the purpose for which the credit is granted. Currently, BanEcuador's investment destinations include the productive and commercial sectors, within which the mining sector may be included. However, it is recommended that these categories include a specific target for the mining sector that promotes productive reconversion to mercury-free technologies:

Table 4: Proposed inclusion of the mining sector in investment destinations

Destination: Mining sector	Term	Grace period
Purchase of machinery, equipment, implements, engines, and tools that encourage productive reconversion to mercury-free technologies.	Up to five(5) years	Up to two (2) years
Constructions, improvements, infrastructure works, adaptations, and new or used facilities for mercury-free processing plants certified by the Ministry of the Environment.	Up to ten (10) years	Up to two (2) years

Source: Own elaboration

Additionally, based on the Minamata Convention that was signed by the Government of Ecuador on October 10th, 2013 and ratified on April 8th, 2016; as well as the prohibition of the use of mercury in the country in the mining activities established in the (Mining Law, 2009), it is suggested that within the operations of restricted credits the following clause be incorporated: "Those requested by natural or legal persons of those who trade or produce minerals with mercury".



2.3 Proposal for specific adaptation to existing financial products

The following is a proposal for modifications that can be included in existing financial products, as well as the management model for their implementation.

2.3.1 Credit for inclusive "Miners" businesses

Description:

The purpose of the credit for inclusive businesses is that citizens who are members of a recognized organization and/or associations that articulate with an anchor company gain access to financing⁷. The Central Bank of Ecuador (BCE) will function as an anchor company.

Operating Mechanism

Initially, a "Collaboration Agreement between the Central Bank of Ecuador and BanEcuador B.P. for the delivery of credits to their gold suppliers in the ASM sector" is required.

The purpose of this Agreement is to provide credit support to natural persons who are formally organized and/or Associations of ASM Miners, and who are suppliers of the BCE. These miners must be registered in a list that the BCE will send monthly to BanEcuador B.P., for which a confidentiality agreement must be signed between these institutions. This list must contain information that allows the respective credit analysis and establishes the conditions of the credit operation, such as: average purchase amount, payment method and dates, supplier's track record and history with the BCE, among others. Suppliers who have been informed by the BCE that they are eligible to apply for credit may contact the BanEcuador B.P. agency closest to their place of investment.

In all credit operations, there will be a dialogue meeting between the applicant miners and/or ASM association and the Social Manager of BanEcuador B.P. to evaluate:

- The structure and governance of the association
- The strength of institutional and associative commitments
- The quality of business management and the need for financial education. Identify social and environmental risks, as well as their mitigation measures.

If the Social Manager determines the need for financial education, BanEcuador B.P. has developed a Financial Education Program that

⁷ <https://www.banecuador.fin.ec/a-quien-financiara/credito-negocios-inclusivos/>



contains a curriculum on two axes: "Basic financial education workshop" (8 hours) and another "Organizational strengthen workshop" (8 hours)⁸.

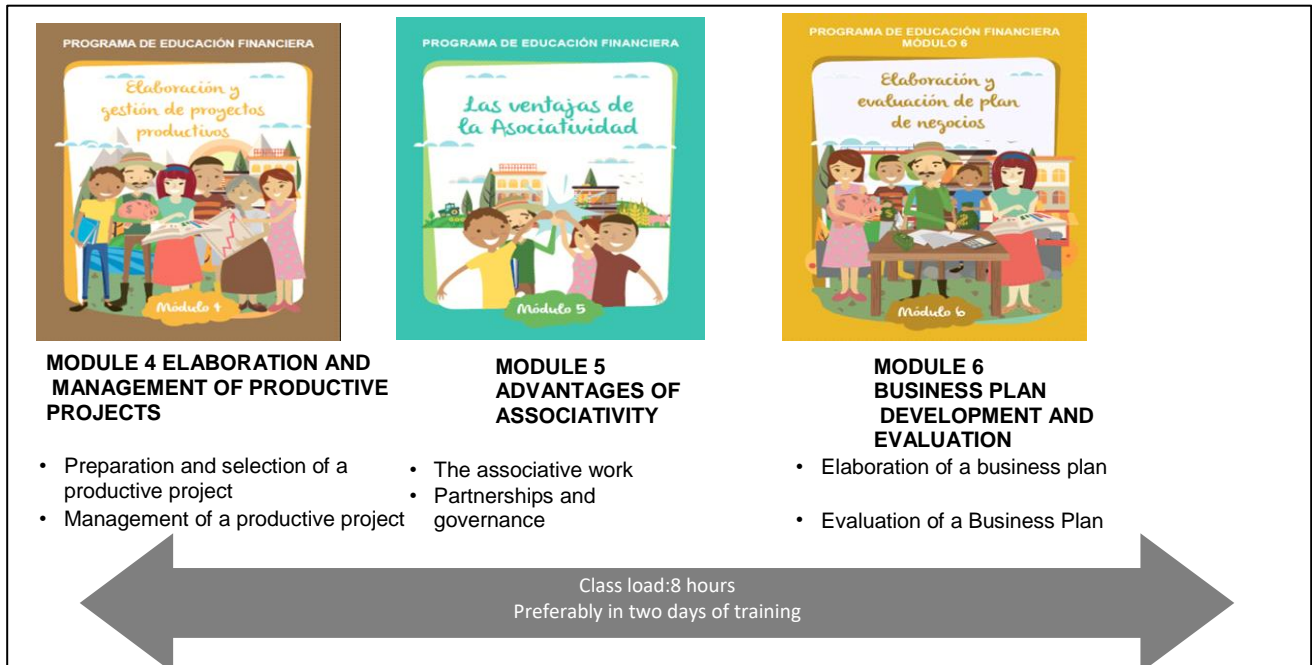
Diagram 1: Curriculum basic financial education workshop



Source: (BanEcuador B.P. (c), 2019)

⁸ (BanEcuador B.P. (c), 2019)

Diagram 2: Curriculum Organizational strengthening workshop



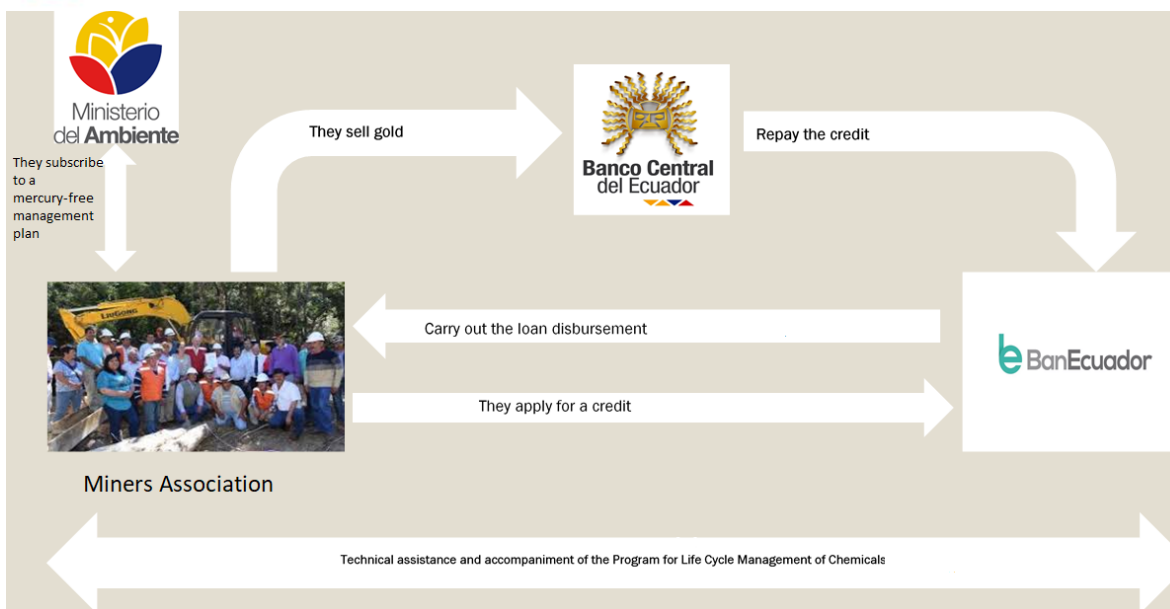
Source: (BanEcuador B.P. (c), 2019)

BanEcuador B.P. shall grant credits to citizens who sell gold to the BCE, prior to the analysis that determines the financial and technical viability of the proposed operation and the capacity of payment of the borrower, as established in the Credit Regulation of BANECUADOR B.P.; and according to the assigned quota, product of the analysis and determination of the capacity of payment thereof, carried out by BanEcuador B.P.

The BCE will pay its supplier for the purchase of gold; therefore, it will deposit in the client's account in BanEcuador B.P., according to the payment date established in the credit operation granted to the client. The BCE shall notify BanEcuador B.P. of the deposit that has been carried out.

To ensure that mining activities are mercury-free, beneficiaries must sign a Mercury-Free Management Plan with the Ministry of the Environment, as well as an agreement for technical assistance and accompaniment by the "National Program for Environmentally Sound Management and Life Cycle Management of Chemicals (PNGQ).

Diagram 3: Operating model of inclusive credit for the ASM sector



Source: Own elaboration

Type of operation:

Productive Credit or Priority Commercial Credit, depending on the size of the association and the destination of the resources.

Economic activities to be financed:

Production, trade, and services related to mercury-free gold mining.

Beneficiaries:

Beneficiaries are natural persons who are formally organized (members of a legally recognized organization or association) and/or Associations of miners engaged in artisanal or small-scale mining (ASM) that are gold suppliers to the Central Bank of Ecuador. The beneficiaries must be included in the lists that the BCE delivers to BanEcuador B.P.

Table 5: Processing capacity of the ASM sector of metallic minerals

Artisanal mining	Small-scale mining
Up to 10 tons per day of underground mining and 120 cubic meters per day of alluvial mining.	Up to 300 tons per day underground; up to 1,000 tons per day open pit mining.

Source: IIGE, s/f.

The geographical location of citizens or businesses as potential recipients of the credit:

Miners or Mining Associations domiciled in the territory in Zaruma and Portovelo with the possibility of expanding to a national level where there are offices of the Bank.



Items that are financed:

- Purchase of machinery, equipment, implements, motors, and tools that promote the productive reconversion towards mercury-free technologies.
- Purchase of vehicles to be used in the transportation of national production.
- Constructions, improvements, infrastructure works, adaptations, and new or used facilities for mercury-free processing plants certified by the Ministry of the Environment.
- Working capital to cover direct operating costs.

Amounts to be financed:

Between USD 500 and USD 500.000

Term:

According to the table of terms by investment destination.

Grace period:

It is customized according to the cash flow of the project and the destination of the investment.

Frequency of payment:

To be agreed in the Agreement to be signed between the Central Bank of Ecuador and BanEcuador. B.P.

Interest rate: Adjustable

- 9.76 commercial.
- 11% production.
- 15% trade and services.

Guarantees:

- Open mortgages on real estate.
- Industrial or commercial pledges.
- Personal guarantee
- Solidarity Guarantee
- Negotiable Commercial Invoices

Disbursements:

According to the investment plan of the project, upon presentation of a progress report by the beneficiary of the credit, validated by the Business Officer. The recipient of the credit is credited.

Specific documents to be submitted for the credit process

In addition to the general documents that the natural or legal applicants must present to the Business Officer during the visit to process their credit applications, the following documents must be attached:

Documents	Micro-enterprises		SMEs		Associations	Community organizations	Undertakings	Comments / Observations
	Natural person	Legal person	Natural person	Legal person				
Gold trading agreement with the BCE.	X	X	X	X	X			Miners and/or associations must be pre-qualified by the BCE.
List of gold suppliers of the BCE	X	X	X	X	X			Credit will only be granted to recipients on the BCE's gold supplier list.
Mercury Free Management Plan	X	X	X	X	X			Miners and/or associations must certify to the Ministry of the Environment that they do not use mercury in their production process.
Technical assistance agreement by the National Program for Chemical Management (PNGQ)	X	X	X	X	X			Miners and/or associations must have the technical assistance of the PNGQ to reconvert to mercury-free mining production.

Source: Own elaboration

2.3.2 Credits for undertakings of the Jancheras

In the ASM sector, women participate in different activities linked to roles socially assigned to them, such as: cooks, sex workers, shop owners, miners, among others; generally, in precarious conditions and they suffer a high violation of their rights. Within this group, the women miners are known as "Jancheras" who generally collect the waste left in the dumps and amalgamate it with mercury in areas close to their homes with the consequent health problems for them and their family environment.

In this context, it is proposed to support these Jancheras to undertake economic activities outside the mining areas that will allow them to improve their economic autonomy with the support of reimbursable and non-reimbursable financing. Although BanEcuador's financial products include the "Entrepreneurial Woman's Credit," it is aimed at women who have suffered some type of violence. For this reason, it is proposed to strengthen the "Entrepreneurial Credit" for the Jancheras.

Description:

Financing of economic activities of women "Jancheras" who wish to undertake in new individual or family productive units outside the mines.

Type of operation:

Micro-credit.

Economic activities that are financed:

Production, trade, and services related to activities outside the mining sector.

Beneficiaries:

Women "jancheras" and / or associations of women miners, without previous experience in their own undertakings, who directly manage their project,



with the decision to generate an undertaking as an alternative to self-employment outside the mining sector.

The geographical location of the citizens or potential companies who will receive the credit:

Miners or Mining Associations domiciled in the territory in Zaruma and Portovello with the possibility of expanding to a national level where there are offices of the Bank.

Items that are financed:

- Fixed Assets, including the purchase of new vehicles for the transportation of own national production.
- Working capital to cover direct operating costs.

Amounts to be financed:

Between USD 500 and USD 59.100

Term:

Between 30 days and 60 months.

Grace Period:

Customized according to the cash flow of the project and the destination of the investment.

Frequency of payment:

Customized according to cash flow and production cycle: monthly, bimonthly, quarterly, semi-annual, annual, or at maturity.

Interest Rate: Adjustable

- 11% production.
- 15% trade and services.

Guarantees:

- Open mortgages on real estate.
- Industrial or commercial pledges.
- Personal guarantee
- Solidarity Guarantee
- Negotiable Commercial Invoices

Disbursements:

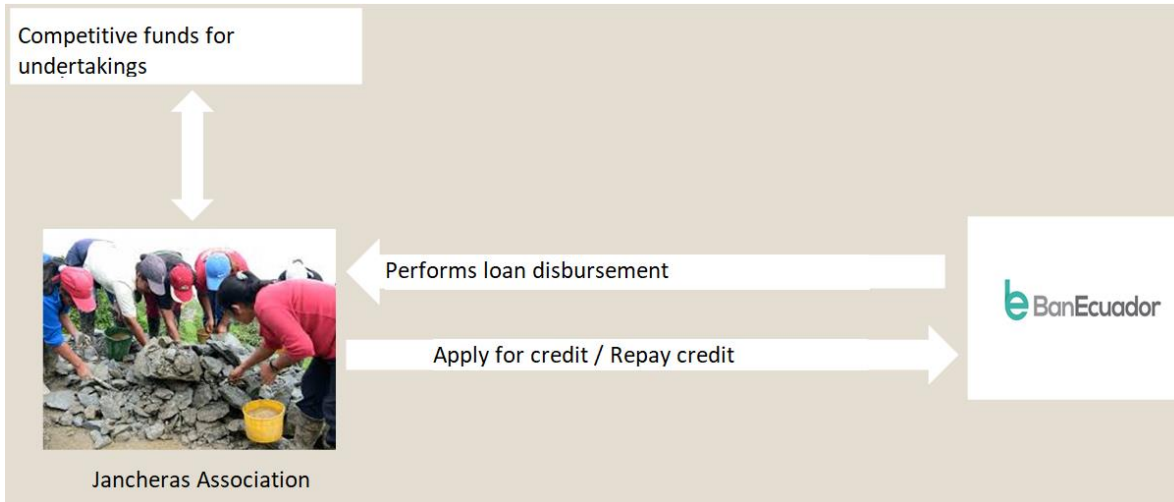
According to the investment plan of the project, upon presentation of a progress report by the beneficiary of the credit, validated by the Business Officer. The recipient of the credit is credited.

Operating Mechanism

Women "jancheras" who wish to engage in economic activity outside the mine may apply to BanEcuador B. P. for a credit. Based on the dialogue with the Social Manager, it will be determined whether or not it is necessary to strengthen them with financial education for the design, management, and elaboration of a business plan so that their undertaking is viable and

bankable. Additionally, these women will be able to participate in the competitive funds that the Program is designing.

Diagram 4: "Jancheras" Operating mechanism of the credit for undertakings of women miners "Jancheras."



Source: Own elaboration



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