TRAINER'S HANDBOOK

Financial Literacy for Artisanal and Small-scale Gold Miners in Kenya

Table Of Content

MODULE 1

ASGM
Financial Literacy

MODULE OBJECTIVES

By the end of this topic the participants should be able to;
i. Outline the components of the ASGM finance course;
ii. Explain the general infrastructure required for finance;
iii. Identify the key financial statements and their main components;
iv. Highlight the importance of record keeping;
v. Explain the different types of financing businesses;
vi. Identify different investor types;
vii. Explain how investors evaluate opportunities.

INTRODUCTION

The ASGM finance course is designed to provide artisanal miners with basic knowledge, skills and tools to access outside financing for their operations.

FINANCIAL INFRASTRUCTURE

Access to outside financing requires organization and specific structures prior to any kind of formal investment. The basic infrastructure includes:

- A legal business entity
- Registration with the tax authorities/or county or national government (for Kenya Case)
- Mining/operational permits
- Bank accounts
- A well-defined management system

All of these factors have to be in place prior to any type of conventional investment. The lack of any one of these variables could prevent investment on its own.

INTRODUCTION TO FINANCIAL STATEMENTS

There are two types of conventional financial statements generally accepted internationally: 1) Income Statements and 2) Balance Sheets/Statement of financial position.

Income Statements outline the profit/loss of the business over a period of time usually on an annual basis. The income statement starts with the revenue at the top and flows down to profit. Starting from the top of the statement, the major items include revenue, cost of goods sold, general expenses, depreciation/ amortization expenses, interest expenses, income tax etc. Any funds remaining are categorized as profits.

The Balance Sheet lists a firm's assets and shows how the assets were purchased (or financed). The left side of the balance sheet lists the assets which could include cash, gold in inventory, mining permits and/or processing equipment. The right side of the balance sheets shows how the assets were paid for. Business capital is obtained either through debt, equity or a combination thereof. The left side of the balance sheet always equals the right side. That is, the value of the debt plus the equity always equals the value of the business' assets.

In many cases, it is easiest to balance the balance sheet through calculating the value of the equity. It is often fairly easy to calculate the value of the assets (through the open market or comparable in the market) and the value of the debt is known. The value of the equity is the asset value minus the value of the debt – thus the balance sheet balances by definition.

The balance sheet is a snapshot of the business at a point in time – often at year end.

BUSINESS RECORD KEEPING

Business records are how investors assess the value of a business and include financial, operational and geological records.

Ideally, financial records would include Financial Statements over a period of time. Investors usually like to see at least three years of statements when considering a business. If full financial records are not available, the volume of gold sold over time can act as a partial substitute. The income statement can be derived from gold value with a reasonable level of accuracy with some site specific information.

In ASGM, operational records can be as important or more important than the Financial Statements. These types of records should include ore details (type of material mined, grade and volume) operation metrics (head grade, recovery, tails grade, though-put, waste and ore mined). A record should also be kept for consumables (eg timber for shaft construction), manpower and fuel/electricity consumption.

Other records of non-financial information that ASM would ordinarily have include records of machine and machine maintenance, records of employees (eg daily record of employees working in pits), price movement of golds and other items.
In mining, showing that the host geology can support the operation over the investment period is also important. This may entail an assessment by a competent geologist detailing the type and volume of ore as well as the expected grade.This is very key as this will guide the investor in acquiring the right investment/technology that matches the expected volume over the period of operation.

In the absence of records, investors will discount (or apply a lower value) to the operation. This will result in the investors paying significantly less for a share of the business or reducing the amount that they may be willing to lend. Investors will do this due to lack of certainty and to manage their risk.

Many investors will not be able or willing to invest at all without operational or financial records.

TYPES OF INVESTMENT

There are two general types of investment: debt or equity. In addition to the two main investment classifications, there are specialized hybrid types that are combinations thereof. Hybrid investments include convertible debt, mezzanine debt, impact investments and royalties. There are benefits and risks to each type of investment and not every investment is suitable for every situation. Historically, equity investments are more common for small-scale, early-stage mining ventures due to the high-risk profile.

Debt

Debt investments consist of a fixed payment of money subject to specific terms over a set period of time. At the end of the investment term, the money is paid back to the investor. The debt terms include interest rates and protections for the money lenders. Often, lenders tie the debt to assets that are of equal or greater value than the amount of money provided to the business. In the event of non-payment, the lenders have the right to seize the subject assets.

Benefits:

- Debt holders have no say in the management of the business and only have rights as defined in the loan agreement.
- Debt is usually cheaper than equity.

Risks:

- Debt holders can push a business into bankruptcy through their rights defined in the loan agreement.
- Interest payments can be out of sink with business cash flow in commodity sectors which can cause significant stress on the operation.

Equity

Equity investments represent an ownership stake in a business. Such investments include share purchases (public/private) or partnerships.

Benefits:

- There is no obligation to pay equity holders in the event of low cash generation.
- Equity investors are often experts in the business field and can provide management guidance.
- Equity holders cannot push an endeavor into bankruptcy.
- Due diligence for equity investments is often less onerous and these types of investors have a higher risk tolerance which often renders these investments easier to source.

Risks

- Equity is generally more expensive than debt for business owners.
- Business owners may have to share control of the venture with equity holders.
- Business owners may lose control of the business if their share falls under 50% of the equity.

TYPES OF INVESTORS

There are many types of investors which make different types of investments.

Local Entrepreneurs

Every community has individual business men that are continuously looking for opportunities. These types of investors are usually fairly sophisticated and are comfortable doing many different types of deals in all kinds of sectors. Investments can span from private equity to private high interest debts. Local entrepreneurs are often interested in becoming business partners and/or buying businesses outright.

Banks
All countries have national banking systems and local banks. These banks provide business loans following a rigorous due diligence process. Due diligence includes business plan review, financial statement review, operational reviews (in some cases) and vetting of owners. Bank lending in mining is extremely rare without outside collateral, co-signing and/or supporting parties.

Private Equity Investors
These types of investors share many characteristics with entrepreneurs with the main difference being scale and degree of organization. The size of investment is usually substantial due to overhead costs (in the case of funds).

Public Equity Investors
These investors include individuals as well as institutions. The vast majority of ASGM projects will not achieve the scale necessary to attract this type of investor. An enterprise generally must be valued greater than US$2M to be listed on a public exchange which precludes most ASGM projects.

Government Investment
In critical sectors, governments will often make direct investments that fit their political mandates. Governments will also serve as fulcrum investors in high-risk situations or will backstop losses to attract private sector investors to target sectors. Governments also provide low-cost loans or loans with less r business qualifications.

Social Impact Investors
SRI investors focus on other aspects beyond investment return when deploying capital. They can be characterized as investors with a social mandate. The social mandate can include lowering carbon emissions, financial inclusion and jurisdictional focus. However, these investors also need reasonable scale to be able to participate in an investment.

Family Offices
These investors consist of high-net-worth private citizens. Often, family offices have focuses on particular social aspects; however, this is not always the case. These investors can deploy capital extremely quickly and some family offices will back small-scale ventures and can be suitable for ASGM. The issue for ASGM is breaking into their consideration set for investment given that many offices shun publicity, and the vast majority are based in the developed world.

INVESTOR OPPORTUNITY EVALUATION

In general, professional investors all use the same framework for evaluating financial opportunities. The list below outlines the common factors:
- Business Concept
- Valuation
- Operational History
- Management
- Total market size

These are the general factors but some investors (as outlined in Module 5) have other variables that they consider depending on their investment motivation. Further, some investors will emphasize some factors over others depending on the type of investments they make and the depth of information on each factor they need. For instance, a bank loan will generally require more extensive and formalized operational and management information as compared to a local, private equity investor.

It is also important to note that some of these factors do not apply to ASGM in a meaningful way. The ASGM business concept is well understood for typical mining operations and the mines produce gold for which there is a vast global market (although the price is highly variable).

Therefore, we can generally distil the list down to the middle three bullets for the ASGM sector.

Valuation

Professional investors base valuation on free cash flow and how much they think the free cash flow is worth given the level of perceived risk. Free cash flow can be defined as the amount of money that can be removed from a business over time without damaging the business. That is, the amount of money that can be taken from the business sustainably.

In general, for private businesses, investors want to be able to get their money out in three to five years. This equates to a return of approximately 15 to 25%. Another way to think about this is that investors value businesses at three to five times free cash flow.

For example, if an ASGM operation clears ~US$10K over the course of one year an investor would consider the value of the business to be between US$30 to 50k.

Banks will look at free cash relative to annual interest payments to gauge how much they are comfortable lending to a particular operation. In general, private operations should have 2 to 3 times the interest payment in annual free cash flow.

Investors will use other tools to gauge valuation such as market asset value and the recent sales price of similar businesses. However, free cash flow is at the root of all valuation.

Operational History

Historical records of business operation allow investors to fine tune their estimates of how much money a business can generate. The best gauge of the future performance of the business is the past performance. These records allow for more precise estimates which lower the amount of risk for the investor. If a business can increase investor confidence, they can increase the price paid for a share of the business and/or the amount of money an investor will lend to the business. Thus, financial and operational records are extremely important.

Management

Investors need to have confidence in the people behind the business. They need to know that the people are trustworthy and can manage the business. Investors have to see evidence that the money they give to the business will be used in the way that it was promised to be used.

A clear management hierarchy must be provided to investors as well as the CVs of key personnel.

MODULE 2

ASGM Financial Training – Financial Infrastructure

ASGM Financial Training – Financial Infrastructure
MODULE OBJECTIVES

By the end of this module the participants should be able to;

i. Define investment;
ii. Outline the main components of business financial infrastructure;
iii. Identify the types of business entities with their benefits and short comings;
iv. Explain the importance of having a business bank account;
v. Highlight the importance of management quality and organization;
vi. Explain the importance of business records; and,
vii. Highlight the benefits of registering with the government.

INVESTMENT DEFINED

Investment is the act or process of supplying money to a business or business opportunity in the expectation of a reasonable profit or desired result. Investments can be in the form of purchasing a business, a portion thereof, or in the form of a loan.

Investment always involves an exchange of value of some sort and investors are always compensated for providing money to a business. Equity investors are purchasing a portion of the business and thus have the right to a share of the business profits and influence over management decisions.

Debt investors are temporarily providing money to a business in return for interest payments. Debt investors are entitled to the full amount of money lent to the business at the end of the loan term plus the agreed upon interest payments.

AN INVESTOR'S PERSPECTIVE ON RISK

The act of investment requires prudent risk management in order to be successful. Investors focus on the safety of the investment as well as the potential return/impact during the decision-making process.

Understanding the investor's point of view is important for business owners seeking investment. Every investor has different risk attitude towards certain business.

Businesses that demonstrate the characteristics that lower perceived investment risk are more likely to be successful in attracting investment. It is therefore important to have a risk management plan for the business to enable potential investor to make an informed decision before making and investment.

BUSINESS INFRASTRUCTURE

Prior to seeking investment, a number of factors must be in place. In the absence of these factors, it will be very difficult for a business to successfully attract outside investment due to elevated perceived risk as well as logistical constraints on the flow of capital.

Business investment requirements:

- Legal business entity
- Business bank account
- Operating permits
- Business government registration
- Management structure
- Business records

LEGAL BUSINESS ENTITIES

A legal entity to house the business venture is required prior to any investment. Such an entity is required to register the investment against during the investment process. In the case of an equity investment, the entity must be divisible to accommodate the sale of shares (or a portion of the business). A debt investment also requires an entity to be responsible for the loan. There are several different types of business entities suitable for different types of businesses and investments.

Care should be taken to choose the right entity for the specific situation of the business so as not limit options. That said, entities can be often modified if required for a fee.

Common entity types:

- Sole proprietorship
- Partnership
- Limited liability corporation
- Co-operatives

SOLE PROPRIETORSHIP

A sole proprietorship is a business enterprise owned by one person where there is no legal distinction between the owner and the enterprise. That is, personal liability is not limited for the actions of the sole proprietorship enterprise.

Benefits:

- Suitable for small businesses
- Able to attract loans
- Least expensive entity to register and organize
- Suitable to house permits and other assets
- Simple to understand and manage
- Decision making is faster

Drawbacks:

- Not suitable for partners or equity investment
- Limits the investor market and investment scale
- Unlimited liability for the owner
- Taxed at the personal rate
- Limited experience or expertise

PARTNERSHIP

Partnerships are enterprises owned generally by two to roughly twenty people.

Benefits:

- Shared management duties
- Suitable for small to medium sized businesses
- Able to attract loans as well as new partners (to a point)
- Larger scale investment (compared to sole proprietors)
- Inexpensive entity to register and organize
- Suitable to house permits and other assets
- Simple to understand and manage

Drawbacks:

- Diluted management control
- Unlimited liability for the partners

- Partners are liability for each other's actions
- Can be expensive to breakdown in the event of disagreements
- Taxed at the personal rate

LIMITED LIABILITY CORPORTION

Corporations can be owned by many people and limits the liability of shareholders generally to the value of the assets in the enterprise.

Benefits:
- Suitable for medium to large businesses
- Able to attract loans as well as equity investments
- Suitable to house permits and other assets
- Suitable for large scale investment
- Amenable to growing endeavours
- Easy to transfer ownership
- Larger market for the sale of the enterprise
- Generally lower tax rates as compared to personal taxes
- Share ownership can be passive
- Can enjoy the economies of scale due to large scale operations
- Division of labour- management with diverse level of experience

Drawbacks:
- Expensive to register and organize
- Complex structures to maintain (requires professional help)
- Complex reporting requirements
- Management requires considerable organization
- Large annual costs to keep in good standing
- Expensive to wind-up

CO-OPERATIVE

Co-operatives ("co-ops") are democratically managed and generally have more than three members. Co-ops are managed for results other than (or in addition to) maximum return to owners.

Benefits:
- Suitable for small to medium sized businesses
- Able to attract loans
- Can be expensive entity to register and organize
- Suitable to house permits and other assets
- Democratic management with equal voting rights
- No limit on membership

Drawbacks:
- Novel for some investors thus may be perceived as higher risk
- Limits investor market due to multiple competing priorities
- Management consensus can be difficult to maintain
- Not suitable for equity investment
- Limits investment scale
- Liability for the members
- Taxation may be complex
- May be expensive to maintain and wind-up

LEGAL ENITITY CONSIDERATIONS

In light of the preceding summaries, care should be taken in choosing a business structure. Below are some of the variables that should be considered in the entity decision:

- Business scale
- Management style of owners
- Degree of management organization
- Owner liability tolerance
- We the rell of the business to support ongoing costs
- Endeavour priorities
- Scale of investment required
- Type of investment preferred
- Number of people involved and business sophistication
- Type of business and existing assets
- Owner alignment

BUSINESS BANK ACCOUNTS

In order to attract investment, business managers should establish a bank account transparently owned and controlled by the business. The account should be demonstrably managed for the benefit of the business objectives.

A separate business bank account is required for record keeping and enterprise accounting. It is also required to house the proceeds from potential investment.
Bank account records will be accessed during the investment due diligence process and is a critical factor in de-risking the business for investors.

Sole proprietors should also keep separate accounts to increase the likelihood of outside investment (if desired).

BUSINESS PERMITS

A business must have all the necessary permits to operate legally to attract investors from the formal economy. Such permits include (but are not limited to):

- Business license
- Mineral claims
- License to take water
- Tailings disposal permit
- Explosive permit
- Can we include land agreements or Lease agreements?

Further, permits should be tied to or owned by the business entity seeking outside investment. In the case of a debt investment, such permits may be considered assets and may be used for debt collateral.
Formal investors will not and cannot invest in enterprises that are operating illegally. There must be at least a feasible path to legal operation before any type of investor will participate in the project.

BUSINESS MANAGEMENT

Competent management is critical for enterprise and investment success. Managers must be able to demonstrate expertise in their business areas.
Vetting of management is a key step in the investment process and due diligence.

Investors will want to see professional/trade certifications, education credentials and experience histories to gauge suitability. Career histories of key personnel should be documented in CVs for distribution to potential investors.
The investment pitch should be tailored to the business scale and the manager's demonstrated abilities.

In case of business outsourcing and/or engagement of specialized services e.g blasting, repairs of machine, should also follow structured process and due diligence carried out.

BUSINESS HIARCHY

For businesses mid-sized and larger, an organizational structure should be mapped and defined. In the case of smaller operations, the lines of responsibility can be simple but clearly outlined.
In cases where significant investment is sought out, roles and responsibilities for the Chief Executive Officer, operating managers and financial managers should be clearly differentiated. Personnel in these roles must have documented aptitudes for the outlined responsibilities.

Standard operating procedures for key jobs should also be outlined with employee responsibilities.

Safety standards and procedures should document.
The abilities of managers are one of the main hinges of an investment decision.

BUSINESS RECORDS

Examination of business records is a key component of the investment process. Such data include the Financial Statements with supporting documents as well as operating records. Both of these subjects are covered in separate Course Modules.
In general, investors require a minimum of three years of records. Financial records include the income statements or business profitability over the outlined time period as well as an up-to-date balance sheet tallying the business assets as well as all of the liabilities.

GOVERNMENT TAX REGISTRATION

Similar to permitting, a business must demonstrate tax registration to prove legitimacy to investors. Government will want to see that all taxes are paid when due and that the entity is not in arrears on tax. Taxes can include:

- Permit maintenance fees
- Income tax
- VAT tax
- Import/export duties
- Royalties
- License fee

Unpaid taxes represent a liability on the assets of the business and would generally have priority over loan arrangements. Therefore, examination of tax records is a standard component of an investment due diligence process.
Tax registration is a clear demonstration of legitimacy to outsiders.

CONCLUSION
Accessing investment from the formal economy requires financial infrastructure to be in place. The absence of this infrastructure renders outside investment extremely unlikely due to logistics and investor risk tolerance.
Required infrastructure includes:

- A legal business entity
- Structured management
- Legal operating permits
- Separate business bank accounts
- Tax registration with the authorities

The absence of any one of these factors may bar formal investment.

MODULE 3

ASGM Financial Training – Budgeting and Record Keeping

MODULE OBJECTIVES

By the end of this topic the participants should be able to;

i. Understand basic budget preparation skills;
ii. Explain the benefits of having a budget in business;
iii. Outline an individual and group budget for ASGM;
iv. Explain common expenses incurred in mining;
v. Understand the importance of records in ASGM; and,
vi. Organize basic business records.

Introduction

A budget is an estimate of forecast income and expenses of a business or person/ family unit over time. It is the foundation of a plan for managing your money.

Income: Money that flows into your household or your business.
Money earned from selling goods, providing services, or other income generating activities such as the sale of gold or interest from an investment.
Expense: An expense is money that you spend. It may include costs associated with generation of income or living expenses within a household.
Surplus: When an individual, family, or business group has more income than expenses it is called a surplus (or profit).
Deficit: When an individual, family, or a group has more expenses than income it is called a Deficit (or loss). Deficits are paid out of savings or from money outside the business. Prolonged deficits can lead to bankruptcy over time.
Savings: Money generated by surpluses that is put aside for later use. Savings are only possible when there is a surplus from a household or business.

Why should you develop a budget?

- Money planning begins with budgeting.
- Budgets allow you to see how much money you will earn and how it will be spent at any given point in time.
- Allows for strong financial decisions (what to buy, when to spend, how much, etc.).
- Forecasts deficits and surpluses.
- Prepares an individual/group to deal with emergency situations.

How should you prepare your budget?
Steps to prepare a budget:

i. Identify the financial goals - Establish your financial needs over a certain period i.e. what you want to buy/spend and how much it will cost you.
ii. Forecast expected expenses – This step is critical and should be done as accurately as possible. Create a forecast and for an established business or households, the forecast can be checked tracking all money spent for at least three months.
iii. Forecast expected income – Use the same approach as projecting expenses. In cases where income is less than expenses and deficits are projected, re-check expenses to cut out costs that are not essential. Successful businesses and households focus on keeping expenses as low as possible to create surpluses and build-up savings. Savings can be used for support in periods of low income.
iv. Monitor revenue and spending - Check accuracy of forecasts.
v. Review projected budget – Adjust the forecast budget based on actual spending and revenue. Adjust as necessary to better reflect actual spending. The goals set for your budget should be specific, measurable, achievable, realistic, and within a specified time.

Family Budgeting
Household money priorities should be determined as a group by the family members. Common long term family goals focus on children education, retirement and paying for a permanent family home.

In the short term, an emergency saving account should be established large enough to cover three months of household expense.

Tracking Expenses

Typical family expenses include:
- Housing (rent/mortgage)
- Food
- Medical and healthcare
- Utilities (water, telephone, internet)
- Transportation (to and from mines, children to school)
- Debt/loans payment
- Entertainment
- Insurance
- Education fees
- Miscellaneous

Typical family income sources:
- Wages/salary
- Business sales
- Investment proceeds

Matching Income to Expenses
Prioritization of spending is important, and income must at least match expenses to make progress toward the family money goals. Needs must be separated from wants and focus should be on the goals that the family has decided are the priorities.

ASGM Organization Budgeting
The process is similar to family budgeting for small ASGM groups. The ASGM group needs to identify long term priorities, expenses and income.

ASGM Organization expenses may include:
- Government fees, permits and taxes
- Interest payments
- Mining equipment
- Equipment maintenance
- Transportation
- Gold refining
- Land leases
- Mining/processing consumables
- Utilities (Water, electricity, telephone)
- Fuel
- Wages and salaries

ASGM income is usually mostly from the gold sale through aggregation centers or gold buyers.

Other revenue sources may include:

- Secondary metals
- Royalties
- Property lease payments
- Concentrate sales
- Tailings sales

For many mining operations, gold sales represent the only revenue source.

An example records template is provided below:

An example records template is provided below:

ASGM MONTHLY BUDGET				
		MONTHS		
		Jan	**Feb**	**March**
Monthly Income Sources				
1.	Gold sales			
2.	Royalties			
3.	Property lease payments			
4.	Concentrate sales			
5.	Tailings sales			
	Total Income (a)			
Monthly Expenses				
1.	Equipment purchases			
2.	Equipment maintenance			
3.	Transportation			
4.	Refining			
5.	Land leases			
6.	Consumables			
7.	Utilities			
8.	Fuel			
9.	Water			
10.	Electricity			
11.	Wages			
12.	Interest			
13.	Tax			
14.	Miscellaneous			
	Total Expenses (b)			
	Surplus/ Deficit (a-b)			

RECORD KEEPING

Record keeping refers to the actual process of writing down operational information and business activities (transactions) as they happen.

- Keeping records is one of the most important responsibilities of ASGM, as the success of their activities depend on creating and maintaining an effective record system. Whether individual or group owned ASGM, large or small, record keeping is required.
- The record keeping system chosen must be suited to the particular needs of the ASGM operator but must cover the essentials: income, expenses, personnel involved, volume of material extracted, volume of material processed, amount of gold produced, amount of gold sold and gold sales price (per ounce or gram).
- Good record keeping is essential as it brings a clear understanding of the activities (to operators as well as outsiders/investors), now and in the future and can be used to track the progress of operations.
- Record keeping is also important for the budgeting process. Records are used to create the budget, check the accuracy of the budget and for budget adjustments. Budgeting cannot take place without record keeping.

Additional records important ASGM groups may include:

- Personnel information
- Meeting minutes
- Contracts and leases
- Equipment inventory
- Grant and loans received and repayment schedules
- Safety incidents

RECORD KEEPING IMPORTANCE

Records provide a dashboard to judge the health of your business (or your family's finances):

- To know your profit, you need to know your sales of gold and your costs.
- All money transactions need to be recorded daily to know gold sale and costs.

These records help to avoid overspending, show the performance of the business over time and provide the information needed to track progress toward goals.

Other benefits of strong record keeping:

- Shows business performance over time.
- Provides the information needed to make solid business decisions.
- Lists inventories.
- Lists assets owned by the family/business.
- Shows business investment history.
- Provides easy access to customer and employee information.
- Protects business in the event of an audit or employee issue.
- Provides the information needed for computing tax and other statutory charges.
- Helps to limit liability.

Characteristics of a good record

- Simple – Easy to record and interpret by the user.
- Systematic – Use similar methods to record events.
- Consistent – Maintained on regular basis.
- Complete – Contains all important information.
- True – Based on the actual business information.

Sample records in ASGM:

Minutes of meetings record

Sample records in ASGM:

Minutes of meetings record

MINUTES OF ASGM MINERS MEETING
Date of Meeting: ______________________________ Time of meeting: ______________________________ Name of the Group: ___________________________ Name of mine: ________________________________ Person Chairing the Meeting: ________________
Meeting Agenda: i. Preliminaries ii. Review of status of concern from the previous meeting iii. Discussion of mining items iv. Discuss recent accidents, risks and near misses v. Plan events for the next period vi. Closing Comments
Name and Signature of members present **i.** ______________________________ **ii.** ______________________________ **iii.** ______________________________ **iv.** ______________________________ **v.** ______________________________ **Members Absent** **i.** ______________________________ **ii.** ______________________________ **Preliminaries** ____

Discuss recent accidents, risks and near misses

Plan events for the next period

Closing Comments

Minutes Signed by

Chairperson…………………………… Date: ………………………………

Secretary ……………………………… Date: ………………………………

Register of Members

	Member Name	Date of Registration	Member ID Number	Job Position	Contact Information
1.					
2.					
3.					
4.					
5.					

PARTIES TO AGREEMENT

1.

2.

Period of Agreement/Duration of contract……………………………………….

Terms and Conditions of Agreement:

i. ____
ii. ____
iii. ____

Responsibilities for each party in the agreement

i. ASGM - Lessee (1st Party)
ii.
iii. Land lessor (2nd Party)

Disputes resolution____

____

____

Notice to termination of contract/Agreement__________________________________

Signed for and on behalf of ASGM -Lessee (1st Party)

Chairperson…………………Date……………………

Secretary…………………Date………………………

Signed for and on behalf of Land lessor (2nd Party)

Chairperson…………………Date……………………

Secretary…………………Date………………………

Contracts and leases

ASGM Inventory record

ASGM Inventory record For the Month of …………………………					
		Date:			
	Mining Equipment	**Description (Model/Type)**	**Quantity**	**Value**	**Maintenance Status**
1					
2					
3					
4					
	Total Value				
	Gold in Inventory				
1					
2					
3					
4					
	Total Value				
	Other inventories and Assets				
1					
2					
	Total Value				

ASGM Operational Record

ASGM Operating Record For the Week of …………………………					
Day	**Material Mined (kg)**	**Description (Ore Type)**	**Stockpile Location**	**Mining Location**	**Miner**
1					
2					
3					
4					
5					
Total					
	Processed Material (kg)	**Description (Ore Type)**	**Feed Source (Stockpile ID or Mining location)**	**Recovered Gold (g)**	**Recovery (%)**
1					
2					
3					
4					
5					
Total					

Sales and Expenses Record

Date	Activity Description	Quantity	Rate	Total Amount
	Sales			
	Gold Sold	grams	@	
	Concentrate Sold	tonnes	@	
	Tailings Sold	tonnes		
	Total Income (a)			
	Expenses			
	Wages			
	Fuel			
	Extraction & Crushing costs			
	Utilities (water, gas, electricity)			
	Transportation charges			
	Cost of chemicals			
	Monthly lease charges			
	Total Expenses (b)			
	Profit/Loss (a-b)			

General Ledgers

A General Ledger is a convenient financial record system for a small-scale business such as ASGM.

- Combines many records together in a single journal.
- Records all daily transactions that take place.
- Provides the information needed to build standard financial reports.

Below is a simple summary of a simple general ledger journal:

ASGM CASH BOOK FOR THE MONTH OF……………………					
Date	**Transaction**	**Notes**	**Cash In (Received)**	**Cash Out (Paid)**	**Balance**
	Concentrate Sold		xxx		**xxxx**
	Fuel Purchased			xxx	**xxxx**
	Equipment Purchased			xxx	**xxxx**
	Gold Sold		xxx		**xxxx**
	Tailing Sold		xxx		**xxxx**
	Wages to miners			xxx	**xxxx**
	TOTALS		**XXX**	**XXX**	**XXXX**

Electronic Records Keeping

There are many software packages that can be used to maintain financial records. Management and stakeholders should decide on the appropriate information management software that suits them and their needs.

Google sheet spreadsheet is a free online system for record keeping with bookkeeping templates. The program is straightforward to learn and requires little training for members, officials, and key partners. The platform is hosted online so anyone with internet access can retrieve the spreadsheet.

It allows for collaborative editing allowing members to update transactions as needed.

Benefits of electronic records keeping:

- Simple to share information with members, group managers and key stakeholders.
- Easy to organize, edit and keep up to date.
- The spreadsheet can be customized to the group and the business.
- Changes can be tracked recording when and who made the edits.
- Allows easy visualization of information and can be used to analyze financial data with charts, graphs and/or slides.
- Allows collaboration and tracking/monitoring of project progress by stakeholders.
- Rights to manage and edit records can be assigned by group officials limiting access if needed.
- Software packages and/or spreadsheets can capture large amounts of data.

1. Mining transactions can be summarized in an general ledger daily with all member details and operational activities captured.
2. Records can be easily linked between different groups over different time periods for comparison and trend analysis.
3. Convenient for data storage and backup.
4. Reduces errors in the information.
5. Allows the information to be accessed anywhere online.

GEOLOGICAL RECORD KEEPING

Geological record keeping is important both for miners and for potential investors. Showing that the host geology can support the operation over the investment period is very important. This may entail an assessment by a competent geologist detailing the type and volume of ore as well as the expected grade.
For miners, records allow:

- Efficient mining with efforts directed to the areas that have produced the most gold.
- More successful exploration as miners build on mining experience in the area.
- Effective mine planning.
- Builds a case for possible expansion.
- Insures mining takes place in permitted areas.

An experienced geologist can provide a geological map with interpretation that can serve as the basis for recording keeping. Geologists can also provide exploration and active mining guidance based on the mining records in light of the geological environment.

RECORD KEEPING AND INVESTORS

Thorough operational and financial records provide a project history that is easy to follow for investors. Investors are more willing to provide money to ASGM groups with stronger records.

The amount of money investors are willing to commit is based on how much money they think the operation can create. A long history of profitability in the financial records helps investors get comfortable projecting the amount of money that will be generated from the mining operation in the future. In these cases, investors more will be willing to be a partner or provide a loan.

In cases where there are no records, the investments are seen to be much higher risk. Therefore, investors will not be willing or able to provide money to the operation. The investment research process includes a thorough study of the operational and financial history of the group. Investors will assume that profitability and grade are low in cases with spotty records. Therefore, to order to receive investment, complete and thorough records are extremely important.

In the absence of records, investors will discount (or apply a lower value) to the operation. This will result in the investors paying significantly less for a share of the business or reducing the amount that they may be willing to lend. Investors will do this due to lack of certainty and to manage their risk.

Many investors will not be able or willing to invest at all without operational or financial records.

Conclusion

Budgeting and record keeping are essential for monitoring business performance. Information recorded in records books should be transferred into an electronic record system such as spreadsheet. Electronic record keeping provides important information key for decision making and comparison of performance over different periods. Records will provide information that can assist ASGM and value chain stakeholders to become formalized.

All group activities transactions should be consolidated in a simple computerized record and budgeting system that is maintained consistently. It is easier to collaborate and share project information between key stakeholders and to track business performance.

It is only through accurate and reliable records that an ASGM will win the confidence of investors and attract investment.

MODULE 4

ASGM Financial Training – Balance Sheets and Income Statements

MODULE OBJECTIVES

By the end of this topic the participants should be able to;

i. Identify the different types of Financial Statements;
ii. Explain the main components of the Income Statement;
iii. Understand the structure of the Balance Sheet;
iv. Explain how the Balance Sheet and Income Statements are linked; and,
v. Understand how investors use the Financial Statements.

Introduction

"Accounting is the language of business." – **Warren Buffett**

"I'm a better investor because I'm a businessman and I'm a better businessman because I'm an investor." **– Warren Buffett**

Understanding financial statements enables business owners to make smarter business decisions while increasing their chances of getting outside investment. The Financial Statements allow you to see the strengths of your business as well as the risk areas using the same approach as investors.

Financial Statements Overview

The financial standing of a business is recorded by its financial statements.

- The statements are prepared in a standardized way that is accepted internationally and by governments for tax purposes.
- Private business Financial Statements include an Income Statement and a Balance Sheet.
- Financial Statements are generally audited by outside accounting firms on a yearly basis to ensure accuracy.

Income Statements show a business' profit or loss over a standard period of time (usually one year) and the Balance Sheet records a business' assets, debt and equity at a single point in time (usually yearend).

Income Statements

Income Statements show the performance of a business of a set time - usually one year for a private company.

Starting from the top of the statement, the main categories are:

- Revenue
- Expenses
- Depreciation
- Interest
- Tax
- Profit or loss.

The main purpose of the Income Statement is to show the overall profitability of the business.

It also shows the type and scale of expenses and is a good way to judge management skill.

Revenue

Revenue is the total sales captured by the business. In Artisanal Mining, revenue could include:

- Gold Sales
- Concentrate Sales
- Tailings Sales
- Lease payments to the business owner

In general terms, revenue is money received by the business for selling its products or services.

Expenses

Expenses summarize the costs to the business due to the creation of the products or services that it sells.
Common small-scale mining expenses include:

- Wages
- Utilities
- Power/fuel
- Management/administration cost
- Chemical Consumables
- Rent payments
- Insurance costs
- Travel

There are two general categories of expenses: costs of goods sold ("COGS") and operating expenses.
COGS are generally variable and are directly tied to the volume of products/services sold.

Examples include: fuel costs and chemical consumables.
Operating expenses tend to be fixed, that is the amount paid per month usually states the same, and are not directly tied to the volume of products sold.
Examples include: management wages and rent

Depreciation

Depreciation is an accounting item designed to capture equipment (or other assets) wear and maintenance costs. Depreciation also attempts to roughly estimate the value of a fixed asset at a point in time. As equipment ages, it wears out over its useful life and must be replaced. Rather than recording such costs as a one time, very large expense, accountants record this cost over the estimated life of the asset. It is important to understand depreciation is not actually paid in cash every year.

For example, say a cooperative purchase a new rod mill for $5,000. The cost of the ball mill would not be recorded on the income statement as an expense for $5,000. Instead, assuming the useful life of the ball mill is ten years, the cost would be expensed as ball mill depreciation at $500 per year for the next ten years. The entire amount of $5,000 would be paid in year one and $500 expensed (but not actually paid) for ten years.

Common assets that depreciate include mining equipment, buildings and vehicles.

Interest

The next major item on income statements is interest expense. This line entry shows all the interest that an organization is paying on a yearly basis. This could include interest on land or interest paid for equipment loans.

Tax

The last expense on an income statement is the tax expense. This line entry includes income taxes paid by the organization at the state/provincial level as well as the federal level.

Profit/Loss

After the deduction of all of the outlined expenses, the remainder is either the profit or loss for the period. If there is a loss, the short fall in funds must be covered by savings or another funding source (possibly covered by the business owners, new outside investors or loan providers if they can be found).

Balance Sheet

A Balance Sheet is a snapshot of a business' financial standing at a point in time. That is, a Balance Sheet summarizes everything a business owns, owes and has had invested by shareholders and/or owners (referred to as equity) in a systematic way.

Balance Sheet

The left side of the Balance Sheet lists the business assets and the right side show's how the assets were paid for (i.e. financed).

This relationship is summarized by the following formula:
Assets = Debt + Shareholder's Equity
Shareholder's equity is the amount that the owners of a company have invested in the business. It is the amount money that would be left over for owners if all the assets were sold and debt paid off (i.e. Shareholder's Equity = Assets – Debt). It can also be thought of as the Net Value of the company.
Shareholder's equity includes all the money that has accumulated within the business since beginning as well as all the money that has been invested in the business.

The Balance Sheet also subdivides assets and liabilities into current and long-term categories.
The most common five sections of a Balance Sheet include: Current Assets, Long Term Assets, Current Liabilities, Long Term Liabilities and Shareholder's Equity.

Current Assets

Companies list the assets that are most easily converted into money under the current assets heading. Such assets for a ASGM operation could include:

- Cash
- Gold Dore
- Gold in process
- Gold in stockpiled ore

Long Term Assets

Long term assets can be thought of as assets that can't be turned into cash quickly. That is, assets that would generally take longer to sell. Such assets include:

- Mining equipment
- Mining claims/licenses
- Vehicles
- Buildings
- Processing equipment

Current Liabilities

A company's current liabilities include obligations that are due within twelve months. That is, current liabilities are money's owed to suppliers and investors that must be paid within the next year. ASGM current liabilities could include:

- Accounts payable (or money owed for supplies paid on short term credit)
- Wages payable
- Short term debt (such as debt on company credit cards, lease payments due within 12 months)

Long Term Liabilities

Long term liabilities include all debt that is due more than twelve months into the future. These types of liabilities include:

- Long term lease payments (beyond the next twelve months)
- Long term loans due

Shareholders' Equity

As mentioned earlier, shareholders' equity can be thought of as all the money the owners of the business have invested in the business. Common categories of shareholders' equity include:

- Retained earnings (money accumulated in the business over time from profits – can be a deficit if the business is losing money)
- Share capital (money invested at the commencement of the business)

When shareholders' equity is less than zero, the business is generally considered bankrupt.

Working Capital

Working capital is a factor commonly examined by investors and business owners. It is calculated by subtracting current liabilities from current assets. It is a way of checking that a business has the resources to maintain operations for the next year. In cases where working capital is negative, the business is in danger of going under and will need to find cash to continue operations.

Investors generally like to see current assets at least two times their current liabilities.

MODULE 5

ASGM Financial Training-
Types of Investment

MODULE FIVE:
ASGM Financial Training- Types of Investment

MODULE OBJECTIVES
By the end of this module the participants should be able to;
xxvi. Explain the benefits and risks associated with debt investments;
xxvii. Understand the main features of equity investments;
xxviii. List specific types of ASGM investment;
xxix. Explain situations that are suitable for each investment type in ASGM; and,
xxx. Understand typical investment sizes in ASGM.

Introduction
In general, there are two types of investment: debt or equity. Every other type of investment is a combination of the two or has a modified structure to suit the conditions of the situation. Historically, equity investments are more common in the formal economy for small-scale, early-stage mining projects due to the difficulty in forecasting sales/revenue/profits. In the informal economy, loans are generally more common.

Debt
Debt investments consist of a fixed payment of money over a specified period with the original cash investment paid back at the end. The debt lender makes his or her profit through the interest charged on the loan. Often, debt investors place the debt on business assets that are of equal or greater value than the amount of money provided. Such assets could include buildings, processing equipment, mining licenses/ patents as well as vehicles. If a business cannot pay according to the terms of the loan, the lenders have the right to take the assets tied to the loan.

Benefits:
- Debt holders have no say in the management of the business and only have rights as outlined in the loan agreement.
- Debt is usually cheaper than equity over the life of a business.
- Interest on debt is allowable for tax purposes, i.e interest on loans/debt are deducted before subjecting to corporate tax hence savings

Risks:
- Debt holders can push a business into bankruptcy through the loan agreement contract.
- Interest payments can be out of sync with business cash flow or profits in commodity sectors which can cause significant stress on the operation.

Equity
- Share investments, also known as equity investments, represent an ownership interest in the business. Such investments include share purchases or partnerships.

Benefits:
- There is no legal obligation to pay shareholders in the event of low profits or gold sales.
- • Share investors are often experts in the business field and can provide

management guidance.
- Shareholders cannot push a company into bankruptcy.
- Due diligence for share investments is often easier and less structured.
- Share investors are usually more comfortable taking bigger risks.

Risks
- Equity is generally more expensive than debt for business owners because the new share owners have the right to a proportional share of the future profits for the life of the business.
- Business owners may have to share control of the venture with equity holders.
- Business owners may lose control of the business if their share percentage of the company falls below 50%.

Common ASGM Investment Types
Please note that financing types are sorted into debt and equity categories based on how they are usually structured and their underlying characteristics. Some of the financing types can be categorized in either group depending on how the financing is packaged and the deal arrangement.

The following list is general and is based on the most common situations.
- Debt Financing
- Micro Finance Loans
- Scale: Up to ~US$1,000
- Business Standing: Informal

These are small loans provided to individuals/organizations that generally have difficulty accessing financing in the formal economy. They are usually targeted to sole proprietor enterprises and are designed to provide the money to achieve business stability.

Benefits:
- Available in larger developing world population centers.
- Due diligence is not onerous as the loan is often needs-based.
- Usually there is no bankruptcy risk.
- Extremely flexible payment terms (often essentially honor-based).
- Less paperwork required
- Minimum or no guarantee is expected
- Suitable for venture capitalist

Drawbacks
- Usually limited to loans of very small size (less than $1,000).
- Scale is generally not suitable for mechanized ASGM operations.
- Can be negatively biased against mining.
- Poor understanding of the mining sector by loan administrators.
- Normally have shorter periods of repayment with high-interest rates.

Gold loans
Scale: No limitations (investor dependent)
Business Standing: Informal or formal
Loan agreements where ASGM organizations receive an upfront investment in return for regular set gold deliveries are common in the sector. Often these loans

are informal in nature and are organized by gold traders or other downstream actors in the supply chain.

Benefits:

- Locally available in gold production regions.
- Can be sized appropriately for the scale of the operation and can be small (less than $10,000).
- Due diligence is not onerous as the loan is often based on personal relationships.
- Can be either formal or informal depending on the participants.
- Flexible arrangements can be agreed upon as both the investor and the lender have an understanding of the production process.

Risks

- Can lose the assets that are used as collateral for the loan.
- Gold price swings can work for the ASGM operation or against it depending on how the loan is structured and the operational circumstances.

Gold Streams

Scale: No limitations (investor dependent)
Business Standing: Formal
Gold streams are essentially discounted forward sales agreements and are similar to gold loans. That is, the ASGM agrees to sell gold at less than the market price to the investor who paid upfront for the gold flow. These investments are arranged in many different ways, but generally entail the future delivery of gold by an ASGM operation at a discounted price to spot. The delivery price can either be a fixed amount (say US$1,000 per ounce delivered) or it can be at a set discount to the spot gold price (say 30%). These arrangements can be in perpetuity, or they can be limited to a specific number of ounces.

Benefits:

- Locally available in gold production regions.
- Can be sized appropriately for the scale of the operation and can be small (less than $10,000).
- Due diligence is not onerous as the loan is often based on personal relationships.
- Can be either formal or informal depending on the participants.
- Revenue certainty on gold sales (acts as a hedge).
- Usually there is no bankruptcy risk with streaming agreements

Risks

- Although the organization is protected to the downside it also loses the upside on the gold price.
- Can be a hindrance when seeking other sources of financing due to the cap on revenue/gold sales.
- May lead to disruption of business where agreements are not well done and no clear ways of solving conflicts.

Gold Royalties
Scale: No limitations (investor dependent)
Business Standing: Formal

These types of arrangements consist of selling the right to a set percentage of all gold produced from a property. Royalties are generally in the range of 0.5 to 2% but sometimes can be up to 5%. Similar to gold streams, royalties can be in perpetuity, or they can be limited to a specific number of ounces. The contracts for royalties are usually on the title for the underlying property and remain in place even if the property is sold.

Benefits:
- Locally available in gold production regions.
- Can be sized appropriately for the scale of the operation and can be small (less than $10,000).
- Due diligence is not onerous as compared to debt
- Usually there is no bankruptcy risk with royalties

Risks
- Can be a hindrance when seeking other sources of financing due to the cap on revenue/gold sales
- Any growth in production must be shared with the royalty holder usually without any additional investment from the royalty holder
- Any new gold deposits on the property subject to royalty agreement must be shared with the royalty owner (essentially, the royalty holder has free access to any new discoveries on the property)

Equipment Financing
Scale: ~US$1,000 to more than US$1M
Business Standing: Formal

This type of financing consists of loans/credit provided by equipment manufacturers to help miners purchase their products. The agreements have flexible structures and payment periods. The loan interest rate is usually based on lending rates at the time the agreement is written and is fixed over the loan period.

Benefits:
- Available in gold production regions.
- Can be flexible in size.
- Interest rates can be negotiated (within limits).

Risks
- Requires a financial track record and possibly a credit score.
- Only suitable for larger, mechanized ASGM operations.
- Loan is collateralized with a depreciating asset and the ASGM organization can owe more than the equipment is worth is some circumstances. That is, as the equipment is used in the operation and wears out, sometimes the amount owed on the loan is more than the equipment is worth.-Generally equipment financing is cheaper in the short run but it is expensive in the long run.

Collateralized Loans
Scale: ~US$1,000 to more than US$1M
Business Standing: Formal

These loans consist of standard bank loans against assets. The assets that are used to secure the loan can be either personally owned or owned by the ASGM operation. In the artisanal sector, bank loans are usually originated against personal assets. There are several reasons for this, but it is usually due to the temporary nature of mining permits/claims and the poor understanding of the sector by loan officers as well as the risk associated with fluctuations in the gold price and geological uncertainty.

Benefits:
- Available wherever there are bank branches.
- Can be flexible in size.
- Interest rates can be negotiated (within limits).

Risks
- Links personal assets to the success of the mining venture.
- Requires existing assets and a financial track record or credit score.
- Introduces the possibility of bankruptcy to the endeavor.
- Extremely high level of due diligence on the part of the loan originator.
- Steep learning curve for banks to climb to get up to speed on the ASGM sector.

Partnerships
Scale: No limitations (investor dependent)
Business Standing: Informal or formal
These are formal equity arrangements between two or more people for the ownership of the business. Partnership agreements are extremely flexible and can be formal or informal.

Benefits:
- Locally available.
- Flexible in size.
- Partners can share/participate in management activities.
- Lower level of due diligence in many cases.
- Formal or informal.
- No bankruptcy risk.
- Equity stakes are negotiable.

Risks
- Partners have rights and own a portion of the business.
- Can be difficult to wind down or get out of.
- Partner can take over management if stake is above 50%.
- Partners often disagree.

Share investments
Scale: No limitations (investor dependent)
Business Standing: Formal

Share investments entail selling a portion of the ownership of the business. In the case of ASGM, share sales are always private (rather than through public stock markets). The existing owners have discretion over the size and pricing of the share sale.

Benefits:
- Locally available through entrepreneur network.
- Flexible in size and share pricing.
- Lower level of due diligence in many cases.
- No bankruptcy risk.
- Shareholder management expertise and business advice.

Risks
- Share owners can take control if they gather a majority stake of equity.
- Selling an ownership portion of the enterprise.
- Giving up a proportional share of business earnings forever.

Choosing an Investment Type
There are several factors that go into the decision on the type of investment an ASGM operation should look for:
- Business maturity (ramp-up or steady state)
- Business stability
- Scale of cash flow
- Degree of business formality
- Size of investment required
- Business needs beyond money
- Nature of the industry eg the legislation structure, tax structure etc
- Availability and suitability of the investment

ASGM managers should consider the above factors carefully, assess the business needs which may extend beyond financial and decide on the probability of success of securing outside investors. In cases where the business is just starting out and requires a small amount of money, say less than US$5,000, a micro loan is likely most suitable. Otherwise, there are several financing options that may be appropriate.

In cases where there is no revenue, revenue is extremely variable, there are no hard/ long-term assets and an investment of more than US$10,000 is required an equity investor or partner may be most suitable. Equity investors tend to be more risk-tolerant and understand mining investments as well as the mining sector. Also, importantly, this type of investment cannot push the business into bankruptcy.

In situations where there are hard assets, operation/financial records and revenue is reasonably stable, a debt investment may be more suitable. However, the due diligence process for bank loans requires documentation of the business profits (generally for at least three years) audited by an accountant as well as income tax records as well as manager/owner background checks. Loans will not be provided by formal financial to organizations that cannot provide this information. Furthermore, this information is the minimum required for the assessment and the loan may fail on the strength of the business itself. The process is similar to getting a mortgage to buy a house and in many cases more stringent because it is more unusual (this is the case with any loan to a small/medium sized business)

The ASGM operation must balance the positive and negative aspects and decide on a strategy that has the highest likelihood of success based on their situation.

Ministry Of Environment, Climate Change and Forestry
NHIF Building, 12th Floor,
Ragati Road, Upperhill,
Nairobi, Kenya,

P.O. Box 30126 - 00100
+254 20 2730808/9
+254 20 2725707

IMKA Gold Project
Integrated Sound Management of
Mercury in Kenya's ASGM (IMKA)

www.planetgold.org/kenya