

17 January 2021

## POTENTIAL FINANCIAL MECHANISMS FOR ASGM SECTOR

### Introduction

One of the most significant barriers to the development of a responsible ASGM sector is access to finance. Finance entities including banks, microfinance institutions, and other lenders do not commonly provide loans/credit/financing to the ASGM sector as the risks are often perceived to be too high and such entities do not have the expertise and experience to review ASGM loan applications or develop financial products that are tailored to the ASGM sector. On the other hand, miners' cooperatives and organizations do not have much experience in record keeping and reporting or the preparation of loan applications, which can increase their access to conventional and new financing options.

To overcome the above challenge the project aims to: i) establish partnerships with finance entities/banks to build their capacity and understanding to develop financial products that would tailor to ASGM sector and better assess loan applications from miners, and ii) work with miners' cooperatives and organizations to build their capacity in developing loan/investment applications for mercury-free processing equipment/investments and subsequently apply for loans or investments.

In term of establish partnerships with finance entities/banks, the project has conducted meetings and coordination with interested finance entities / banks will partner with on the development financial products that would tailor to ASGM sector and better assess loan applications from miners. During 2020 the project had received initial commitment and cooperation from several banks and financial entities (will partner with) including 6 banks and 2 non banks. The project also had conducted initial coordination with OJK (Indonesia - Financial Service Authority) for reviewing, processing, and approving the Guidebook for Financial Services Institutions on the Financing of ASGM Sector Mercury Free.

In term to support the financial entities and banks to develop financial product (financing mechanism/scheme) that would tailor to ASGM sector, the project had modified/alternative 8 models of current financing scheme/mechanism of banks/financial entities. The modified/alternative 8 models are also included in the Guidebook for Financial Services Institutions on the Financing of ASGM Sector Mercury Free,

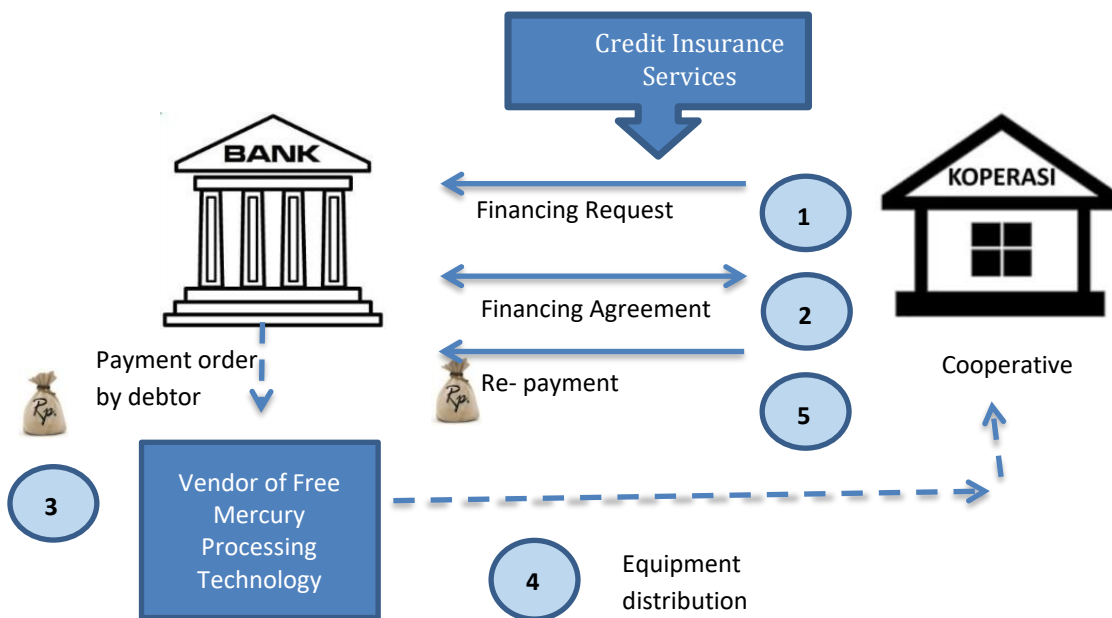
**The 8 Modified/Alternative Current Financing Schemes/Mechanisms of Banks/Financial Entities**

**Financing Schemes for ASGM through Banks**

- *Commercial Bank Credit / Financing Schemes - Model 1*

This scheme is a financing scheme for multi-business cooperatives, where payments are made by banks through vendors of mercury-free gold processing equipment. This scheme is credit / financing for short-term investments. The aim of this scheme is to support cooperatives through financing for the purchase of mercury-free gold processing equipment. In this scheme, the prospective borrower is a mining cooperative with a multi-business type of cooperative, for example running a business of buying and selling equipment, rental of tools, and savings and loans. Terms and conditions are in accordance with the decision of the bank concerned.

The bank accepts the request from the cooperative, then processes the financing contract. Payment of tool prices is paid by the bank to the vendor directly based on a payment order from the cooperative as a debtor. Then, the vendor hands over the tool to the cooperative. The cooperative then pays the bank according to the agreement or the obligation to return the financing. Insurance is enforced to ensure security for the bank. Insurance costs are taken from the loan / credit interest.

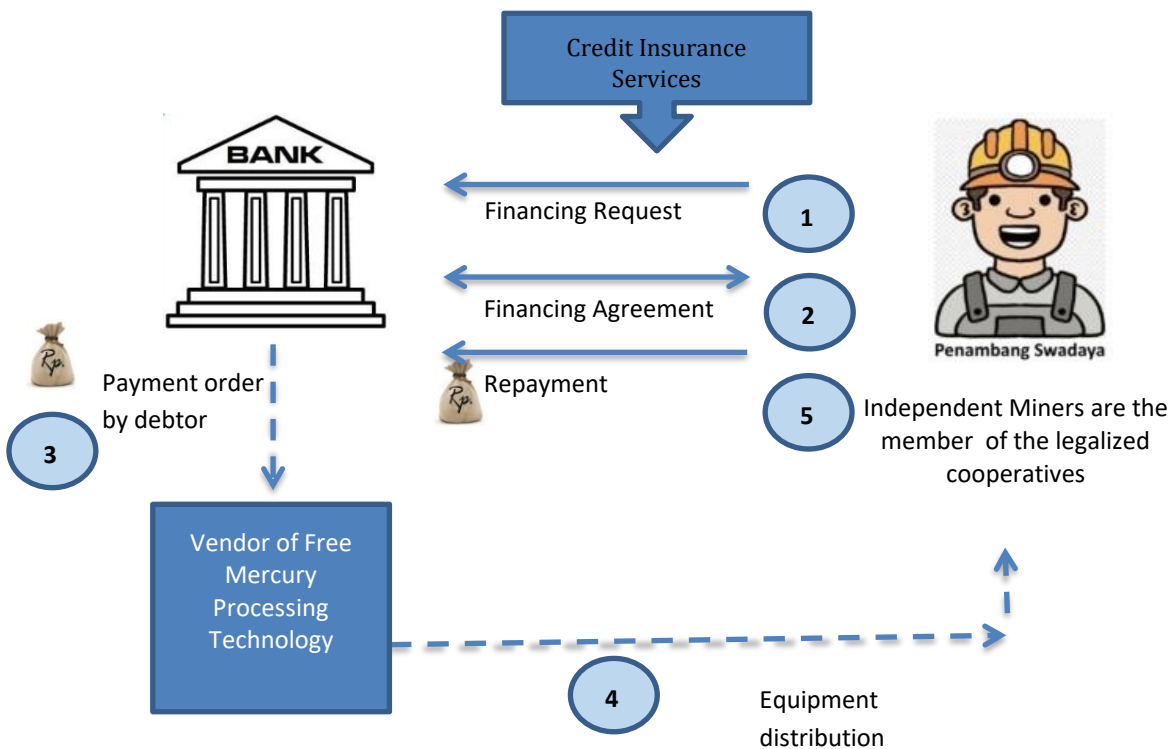


17 January 2021

• *Commercial Bank Credit / Financing Schemes - Model 2*

This scheme is financing for independent gold miners or individuals who are members of a cooperative holding a gold mining permit / IPR. This scheme is credit / financing for short-term investments. Payments are made by the bank through a mercury-free gold processing equipment vendor. The purpose of this scheme is to support independent or individual gold miners through financing for the purchase of mercury-free gold processing equipment. In this scheme, the prospective borrower is an individual miner who is a member of a mining cooperative that already has an IPR who wants to make a loan to purchase mercury-free gold processing equipment. Terms and conditions are in accordance with the decision of the bank concerned.

The bank accepts requests from individuals, then processes the financing contract. Payment of the price of the tool is paid by the bank to the vendor directly based on an order to pay from the individual as a debtor, then the vendor hands over the tool to the miner. The cooperative then pays the bank according to the agreement or the obligation to return the financing. Insurance is enforced to ensure security for the bank. Insurance costs are taken from the loan / credit interest.



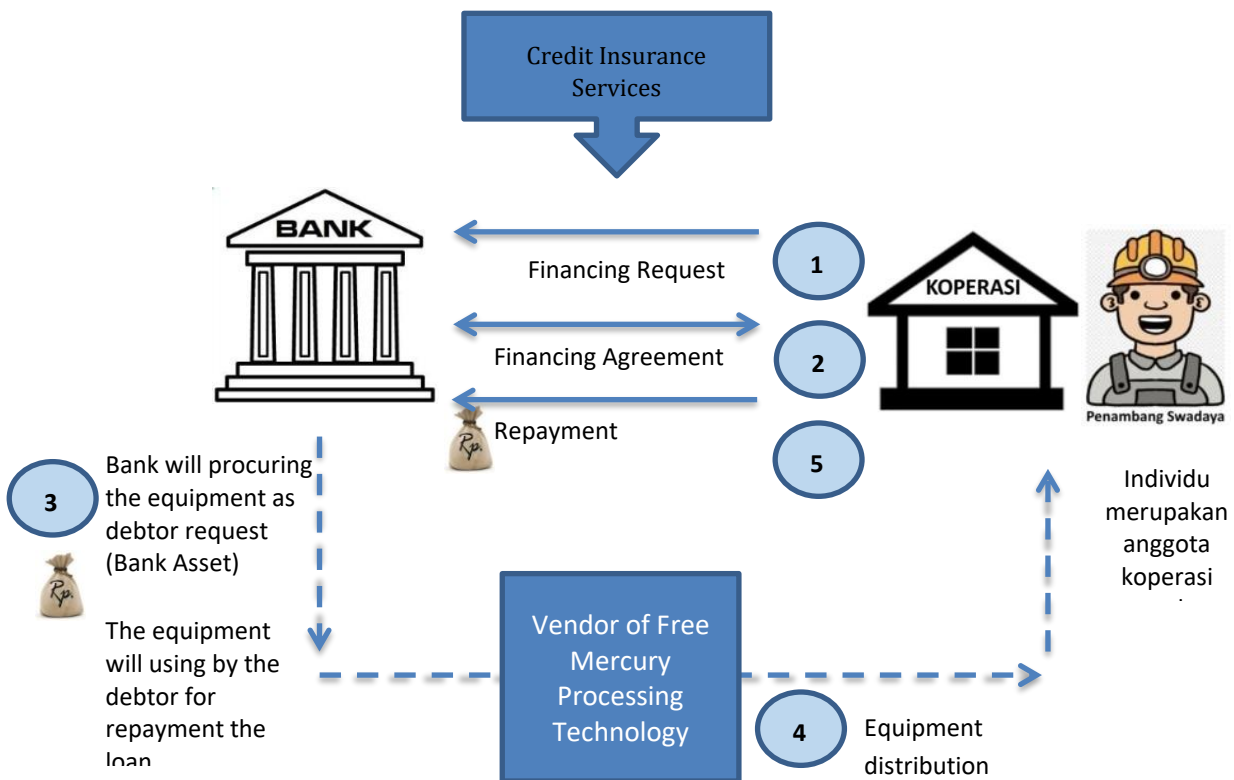
17 January 2021

• *Sharia Bank Credit / Financing Schemes - Model 3*

Sharia-based financing is financing based on agreement between Sharia banks and customers (cooperatives and cooperative members of independent miners). The bank buys the goods needed in connection with the processing of mercury-free gold, such as logs/tromol and cyanide barrels/tong, and sells them to customers at the cost plus the agreed margin profit. The customer can pay in installments an amount that will not change during the agreement period. Terms and conditions are in accordance with the decision of the bank concerned.

Funding flow:

Gold miners who are also members of mining cooperatives apply for loans from Sharia Banks according to established criteria. If it meets the requirements, the Sharia Bank will approve and distribute financing as agreed. Sharia banks will finance the purchase of equipment and these tools are bank assets. The tool will be used by the debtor to pay off the loan. To maintain and guarantee the refinancing process will involve credit insurance services. The terms and conditions for financing by a Sharia (Islamic) Bank are in accordance with applicable regulations: (a) legal status, (b) guarantees, and (c) gold trading cash flow statements.



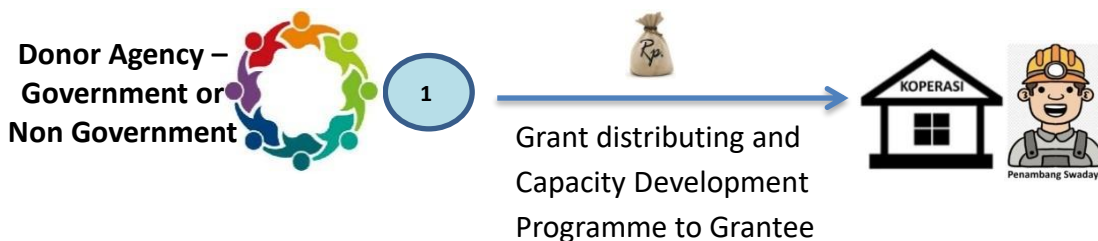
## Financing Schemes for ASGM through Non - Bank

- *Grant financing Scheme - Models 4*

This scheme is financing for cooperatives, individuals, and mining groups through the provision of grants from the government, banking and non-banking institutions and donor agencies. The purpose of this scheme is to support cooperatives, individuals, ASGM groups through empowerment programs, and also to assist miners in capacity building through training and mentoring for sustainable mining practices. Miners have limited capacity on sustainable mining practices, thus requiring outside support.

Funding Flow:

In this scheme, the cooperative receives funding from the grant provider, then manages it so that it can be distributed to prospective debtors from the cooperative, mining groups, and independent mining individuals. The terms and conditions applied are in accordance with the agreement between the grant provider and the cooperative institution that distributes the grant funds.

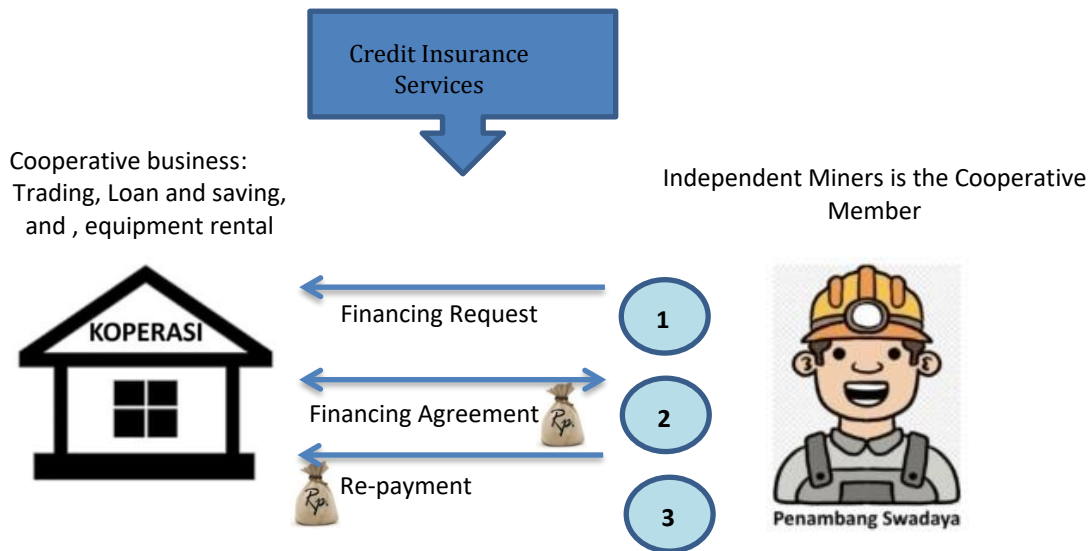


- *Cooperative (multi business) Credit/Financing Scheme – Model 5*

This scheme is a financing for independent gold miners or individuals who are members of cooperatives. The cooperative provides loans to independent gold miners for business capital or the purchase of mercury-free gold processing equipment. The aim of this scheme is to support independent gold miners to start or operate a mercury-free ASGM business. In this scheme, the prospective borrower is an individual miner who is a member of a mining cooperative. The terms and conditions are in accordance with the decision of the cooperative concerned.

Funding Flow:

The cooperative accepts requests from individual miners who are members of the cooperative, then carries out a financing contract agreement with the individuals/members concerned. The individual then pays to the cooperative according to the agreement or the obligation to return the financing. Insurance is enforced to ensure safety for cooperatives. Insurance costs are taken from the loan / credit interest.



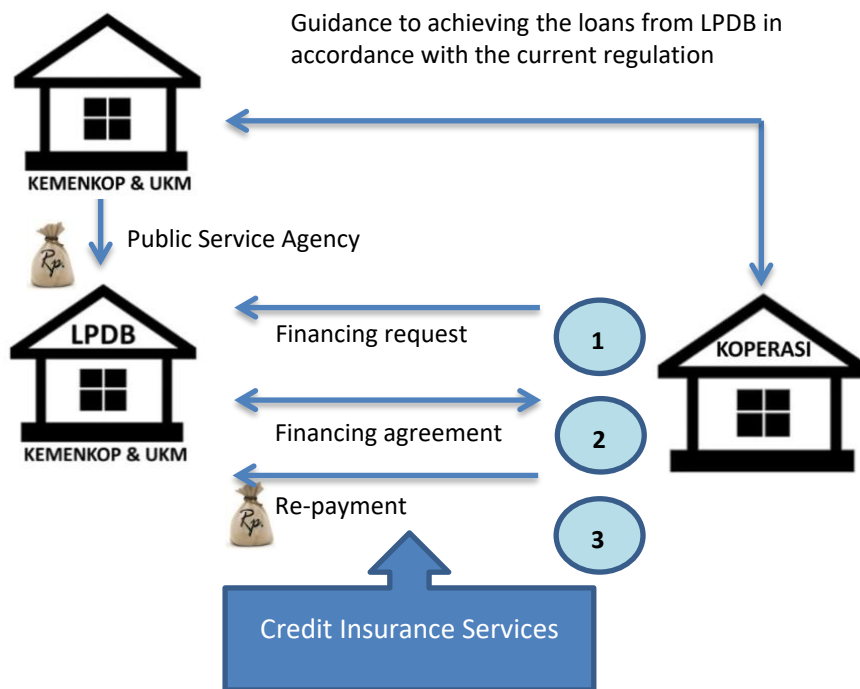
• *LPDB (Revolving Fund Management Agency of Indonesia) Credit/Financing Scheme – Model 6*

LPDB is a Public Service Agency (BLU) under the Ministry of Cooperatives & UKM. In accordance with the Indonesian Government's program under the auspices of the Ministry of Operations and Small and Medium Enterprises (Kemenkop UKM), LPDB has determined support for the ASGM sector in the form of providing credit assistance for Micro, Small and Medium Enterprises (MSMEs). ASGM sector cooperatives that meet the requirements and procedures can be offered this loan. The terms and conditions are in accordance with the decision of the LJK.

Funding Flow:

Gold mining cooperatives apply for loans to LPDB in accordance with established criteria. If it meets the requirements, the LPDB will approve and distribute the financing as agreed. However, if it does not meet the requirements, the cooperative will receive guidance and guidance from the Ministry of Cooperatives & UKM. To maintain and guarantee the refinancing process will involve credit insurance services sourced from loan / credit interest. The terms and conditions for financing by LPDB are in accordance with applicable regulations.



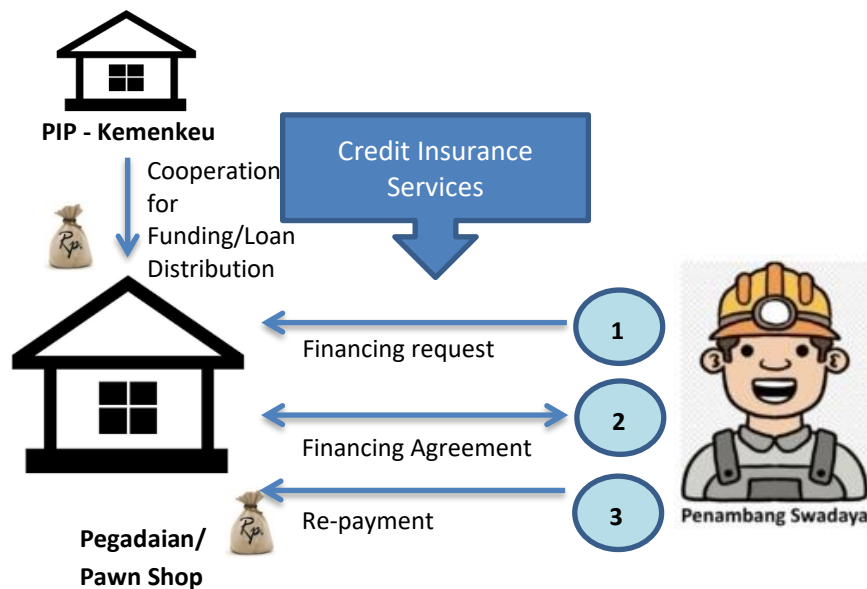


- *PIP (Government Investment Unit of Indonesia) Credit/Financing Scheme (Ultra Micro Financing) – Model 7*

The Ultra Micro Credit Scheme is part of the Ministry of Finance (Kemenkeu) program, through the Government Investment Center (PIP) to support microfinance. PIP is a Public Service Agency (BLU) of the Ministry of Finance. PIP determines that the financing support model for the ASGM sector is through the role of “Pegadaian/Pawan Shop” as a channel for Ultra Micro loans/financing in ASGM locations. Miners can directly contact the “Pegadaian” branch on site to process loan applications for ASGM.

Funding Flow:

Gold miners apply for loans to Pegadaian according to established criteria. If it has met the requirements, PIP will approve and distribute the financing as agreed. To maintain and guarantee the repayment process, credit insurance services are applied which are taken from the loan / credit interest. The terms and conditions for financing by PIP are in accordance with applicable regulations: (a) legal status, (b) guarantees, and (c) gold trading cash flow statements



- **BUMDes (Village Own Enterprises) Credit/Financing Scheme – Model 8**

Village-owned enterprises or BUMDes are regulated in Law no. 6 of 2014 concerning Villages, and supported by PP 43 of 2014 concerning Implementation Regulations of Law no. 6 of 2014 concerning Villages, PP 47 of 2015 Amendments to PP No. 43 of 2014 concerning the Implementation Regulations of Law no. 6 of 2014 concerning Villages, and Permendesa and PDTT No. 4 of 2015 concerning the Establishment, Management and Management, and Dissolution of Village-Owned Enterprises.

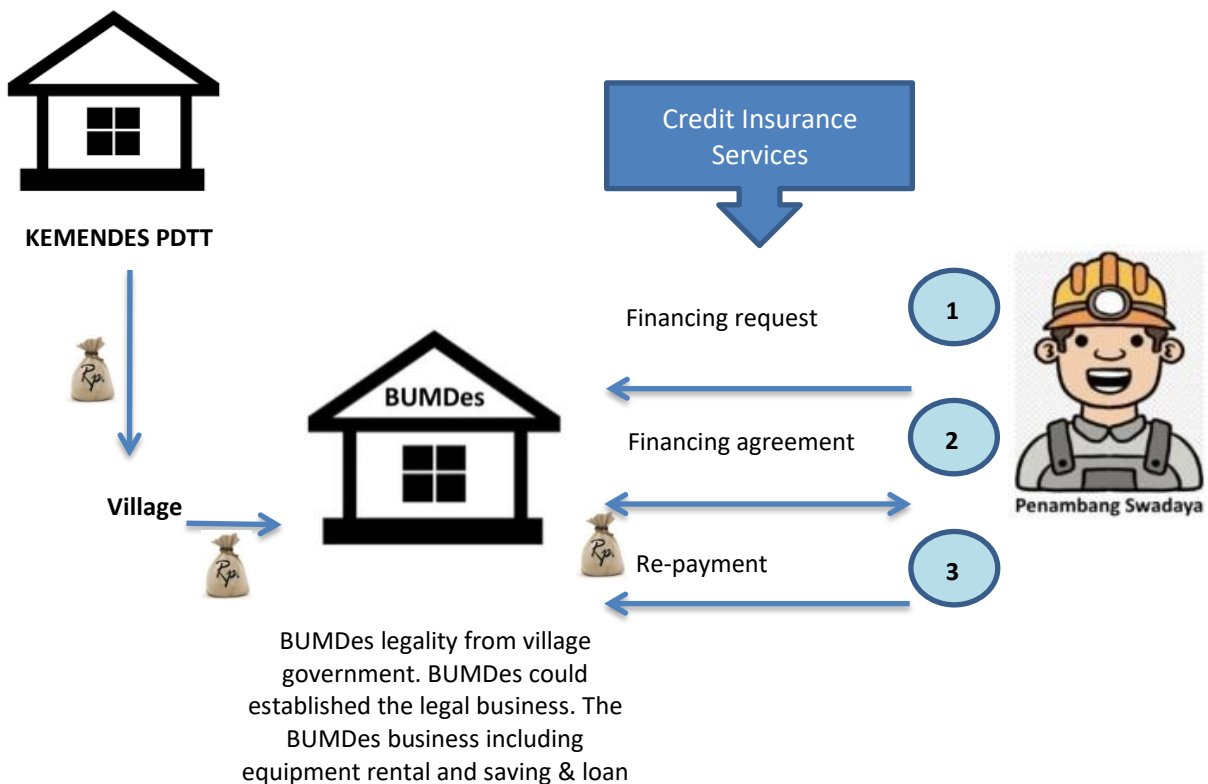
The establishment of BUMDes is intended as an effort to accommodate all activities in the economic sector and / or public services managed by the village and / or cooperation between villages. The establishment of BUMDes aims to: (1) improve the village economy; (2) optimizing village assets to be useful for village welfare; (3) increasing community efforts in managing the economic potential of the village; (4) developing plans for inter-village business cooperation and / or with third parties; (5) creating market opportunities and networks that support the public service needs of citizens; (6) creating employment opportunities; (7) improving community welfare through improved public services, growth and even distribution of the village economy; and (8) increasing village community income and Village Original Income (PADes).

The main role of BUMDes is as a driver of economic activity in villages or between villages. In this case, BUMDes can run various business units to encourage economic activities in the village. One of them is by establishing a legal entity business unit in the ASGM sector.

The BUMDes model of credit / financing scheme is the financing provided by BUMDes to independent miners by channeling equity participation from villages as well as self-help capital participation of



BUMDes members. This financing is one form of BUMDes business in the field of savings and loans for ASGM communities. The terms and conditions for this financing are in accordance with the provisions of the BUMDes concerned. Insurance is applied to ensure the security of BUMDes as a channel of funds. Insurance costs are taken from the loan / credit interest.



**Current Project Efforts**

- All the above modified/alternative schemes/mechanisms referred to have been adjusted to the field conditions faced by financial entities. Several alternative schemes are currently in the process of being reviewed by the Indonesia Financial Services Authority (OJK), which will subsequently be ratified to become a guidebook for financial entities in supporting the financing of the ASGM Sector.
- The developments of the above alternative financing schemes/mechanism by the project are based on the current implemented financing schemes with some modification on the requirements. All the above schemes/mechanism submitted have considered the feasibility aspect to run.

17 January 2021

- Regarding the above, the ISMIA GOLD Project has conducted coordination and consultation with several related financial entities/banks to preparing and initial trial the alternative of credit / financing schemes that could be considered for providing credit / financing to ASGM sector based on the above alternative scheme/mechanism.
- The role of financial entities in enhancing the sustainability of the ASGM sector is not limited to providing credit / financing only. Financial entities are expected to provide capacity building, for example related to financial inclusion / literacy for miners, providing access to ASGM networks, connecting with development partners such as GOLD-ISMIA or NGOs with ASGM stakeholders related to their sustainability practices.
- The project supported the finance entities / banks on the potential debtors (ASGM) mapping in project locations.
- The project also facilitated the related finance entities/banks to introducing and socializing the information on the financial products and how to develop the loan/credit application proposals to the ASGM sector.
- Until the end of December 2020, the project through supporting the Facilitation Consultants in the project locations has encouraged the ASGM Sector to develop the Loan Applications to the related banks. The total developed loan applications were 11 loan applications (10 in Minut and 1 in Kulon Progo) to the banks and 4 loan applications (3 in NTB and 1 in Kuansing) to cooperatives. The total approved loan applications were 1 approved by the bank in Kulon Progo, and 4 approved by cooperatives (3 in NTB and 1 in Kuansing).

*Written by Singgih Seno Aji (Working Group 2 Coordinator)  
For more information contact us at: [singgih.aji@undp.org](mailto:singgih.aji@undp.org)*