

ASM SOURCING: The Risks & Rewards – a DRC Case Study

BY MATTHEW CHAMBERS, CHAIRMAN,
CHAMBERS FEDERATION

THE DEMOCRATIC REPUBLIC OF CONGO

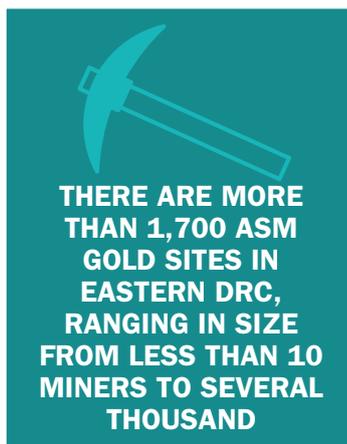
For more than a century, the Democratic Republic of the Congo (DRC) has been plagued by regional conflict and a deadly scramble for its estimated \$24 trillion wealth of untapped minerals¹. Profit from the mineral trade is one of the primary motives for the conflict – the deadliest since World War II. The UN Group of Experts on the DRC estimates that 98 percent of the artisanal and small-scale mine (ASM) gold produced is smuggled out of the country², which in turn fuels conflict and deprives the population of significant revenues and benefits, and undermines the stability of the region – a vicious circle.

Over the past decade, several government development programmes, such as USAID, have invested countless millions, working in partnership with the DRC government, in building responsible ASM supply chains. DRC has been a testing ground for a variety of responsible sourcing initiatives, which started early with successes in the 3Ts, yet lagged behind in the gold sector. The environment in DRC provides a vetting through 'survival of the fittest'. It is an environment of diverse extremes, so that if success can be achieved here, it can be replicated and achieved anywhere in the world. Each programme developed its own

unique approach, but little collaboration existed and, until recently, best practices were largely lost once donor funding for a programme ended. Starting with the first exports of responsible gold in the beginning of 2018, the Fair Congo Initiatives was founded as a social enterprise, with assistance from USAID, to be that 'missing link' between the work of development programmes on the ground in eastern DRC and markets in

the US, Canada and Europe. Working through groups such as the Responsible Artisanal Gold Solutions (RAGS) forum, private sector actors such as Asahi, Richline, Signet and Fair Congo were able to combine these best practices together and bring to market the first responsible gold from DRC to the US market. Working in collaboration with and aggregating responsibly sourced and fully traced ASM gold from every programme in the country, including Bundesanstalt Fur Geowissenschaften und Rohstoffe (BGR),

IMPACT, Peace Direct and the USAID-funded Responsible Mineral Trade (RMT), Fair Congo continues to bring to market ready-to-scale supplies of responsible gold to the US, Canadian and European markets.



SCALE AND DEMAND WORLDWIDE

There are more than 1,700 ASM gold sites in eastern DRC, ranging in size from less than 10 miners to several thousand³. An estimated 11.6 tonnes are produced annually, with each artisanal miner producing approximately 1.17g per week and generating approximately \$437 million per year for the local economy⁴. These figures, in addition to the 30 tonnes of LSM gold produced annually, place the DRC firmly as one of the most important African gold producers.

In 2018 alone, there was well over half a ton of Fairmined and Fairtrade gold exports brought to market across the globe, yet these organisations estimate the demand to far exceed 2 tons. As the current demand outstrips the supply and the demand continues to grow, this creates opportunity for progressive downstream actors to fill that demand. As responsible sourcing programmes expand and enter new producing countries, progressive actors should work early to build these new sourcing relationships to secure diversity to their supply as worldwide LSM gold supplies reduce⁵.

1. UN News, <https://news.un.org/en/story/2011/10/390912-dr-congo-un-advises-prudent-use-abundant-resources-spur-development>, 10 October 2011. 2. Bafilemba, Fidel and Sasha Lezhnev, "Congo's Conflict Gold Rush: Bringing gold into the legal trade in the Democratic Republic of Congo," The Enough Project (April 2015.) 3. Analysis of the interactive map of artisanal mining areas in eastern DR Congo; 2015 Update available at: http://ipisresearch.be/wp-content/uploads/2016/10/Mapping-minerals-in-eastern-DR-Congo_v005.pdf; accessed 18 June 2019. 4. Ibid, pg. 16 – accessed 18 June 2019. 5. www.bloomberg.com, *Decade of Gold Mine Declines Poised to Spur Deals, Price*, by David Stringer, 15 November 2016.



MANAGING EXPECTATIONS

Accessing economies of scale is possible in the DRC; however, this requires an understanding of the realities faced by small-holder miners and co-operatives. Limited and outdated infrastructure and overworked local governing bodies can lead to slower-than-expected export times and costs. Changes in weather, delays in banking transactions and even local political elections can create a disconnect in the understood realities if you've never lived and worked in a developing economy. Starting to source ASM gold is also a long-term relationship, something that needs maintenance and consistency. Disruptions in cashflow and inconsistent sourcing are not compatible with the survivability of ASM communities who depend on reliable commercial partners. It's also important that any refining partner has the capacity to segregate and process in small batches.

RISKS AND MITIGATIONS

Due Diligence and Traceability

After Dodd-Frank was passed, many industry schemes, responding to section 1502, failed to value the existing systems and technical competencies and capacities of the ASM community in an attempt to replace, not strengthen, what had been an operational, if informal, artisanal sector and reactionary economic landscape. This top-down approach doesn't have the sustainability that more organic methods, such as the CRAFT Code does. While creating sustainable self-reliance, it was important that Fair Congo recognised the importance of local experience, learning lessons about how to integrate knowledge and respect for traditional culture, and its integration in the formal economy.

As the first commercial operator to implement OECD DDG in the region, Fair Congo continues to develop and implement a grass-roots

framework which can contribute to a viable pathway for co-operatives to responsibly bring their gold to market at scale. Frameworks such as these create a constructive environment where artisanal producers can implement effective due diligence specific to their operating environment and work towards continuous improvement.

Cash Flow

Artisanal sourcing often requires some level of advanced payment, especially in areas like the DRC where the informal capital markets can be well established, although, financial management capacities in the upstream ASM supply chain can often be limited.

As inventory is rarely held by producers, it is key that the aggregator, whether a financially stable co-operative or exporter, has a consistent and reliable cash flow to purchase ASM gold as it is produced. Even though well-established informal capital is locally available, it isn't consistently available and is often managed by very untrustworthy people, which provides an opportunity for well-funded formal aggregators to replace the informal ones through reliability. Additionally, by using the formal banking system and keeping financial transactions as cashless as possible, it allows the traceability of payments further upstream more than ever before. Fair Congo takes it even further by aggregating all advanced payments in the US and is implementing a mobile money platform into its sourcing sites.

REWARDS

Sourcing Portfolio Diversification

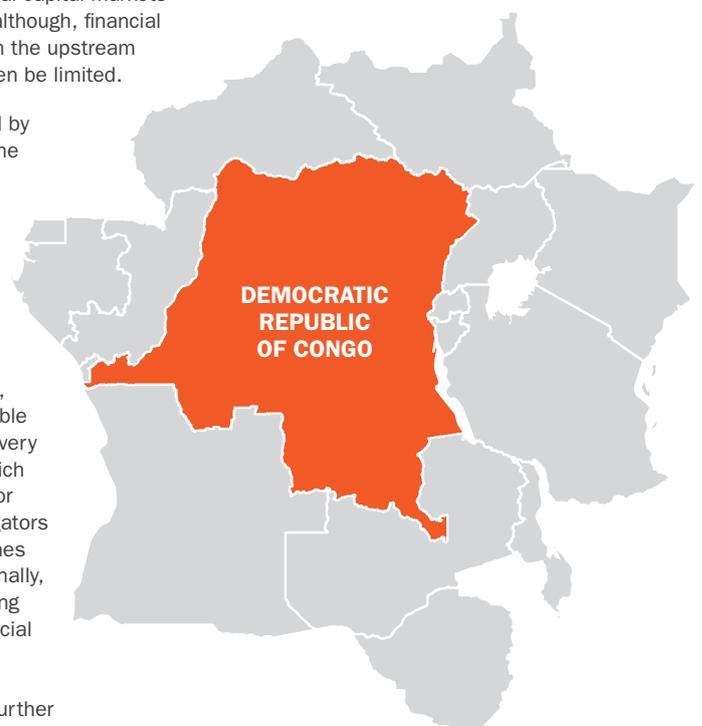
Artisanal gold production is never consistent as it ebbs and flows for a variety of reasons from weather to available manpower. Just as with investing, it's important to diversify to hedge risk. It's inevitable that as LSM production capacity decreases, gold values are likely to increase due to scarcity, which in turn will incentivise more rural workers to enter into the ASM space. This combination of factors has the potential to increase the global 'primary' production input from ASM from its current estimated 20%⁶ to even greater numbers. As artisanal sites vary in size and capacity, having a diverse group of artisanal sites mitigates the disruptions in inventory flows and spreads the risks from potential regional instability.

Progressive Industry Lead

As seen throughout different industries, those who take greater risks and take the lead with progressive, socially focused business models often increase their market share to become industry leaders in the long term. While risks from sourcing ASM gold can be high relative to LSM, the rewards can far outweigh those risks if the actors implement the appropriate risk management approaches.

CSR, No Longer Just Philanthropy

While having a CSR budget is an important line item to maintain, there are other ways to enhance a corporation's positive social impact without adding cost.



6. Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF), Global Trends in Artisanal and Small-Scale Mining (ASM): A review of Key numbers and issues, <https://www.iisd.org/sites/default/files/publications/igf-asm-global-trends.pdf>

By sourcing responsibly from ASM, companies can meet the public's, and their shareholders', demands for social responsibility while adding little to nothing to their operating costs. This, in turn, allows ASM actors to professionalise and access markets that pay consistently and responsibly. As they do, they are able to reinvest in organisational management and address more fundamental challenges in a way that fits international market standards and regulations.

INNOVATIONS

Alternative Livelihoods = Opportunity for Progressive Marketing

Owing to the rural overlap of artisanal mines and agro-economic production zones, Fair Congo's close relationship with small holder producers (more than 25,000 miners and farmers) also presents opportunities for the population to diversify their livelihoods between ASM and agricultural business, and strengthen their household income portfolio. Fair Congo has launched a fine cocoa, single-source, organic and traceable bean-to-bar chocolate company, managed and produced entirely by women, which operates successfully in parallel with traceable artisanal gold exports. The producers and consumers along the gold and cocoa value chains are similar. The producers upstream overlap geo-demographically, and the finished products are targeted at the same consumer base downstream – those concerned with ethical sourcing, a growing consumer demographic.

New Financial Instruments

Already aggregating all exports and downstream finance within the US, Fair Congo's success demonstrates its expertise in context-specific risk management. All payments are received and managed by its parent company based in the US, which is now launching the first US bond focused on CAHRAs, which will be used in part to facilitate secured inventory financing for responsible gold sourcing, mitigating risk for buyers and securing upstream supply contracts.

SCALE AND COUNTRY EXPANSION

Artisanal export relies on a context-specific understanding and adaptable business strategy. Since successfully implementing the first pilot exports, Fair Congo is now scaling up activities to increase its supply coverage of mine sites and partnerships both within DRC and through expansion to other ASM gold-producing countries.

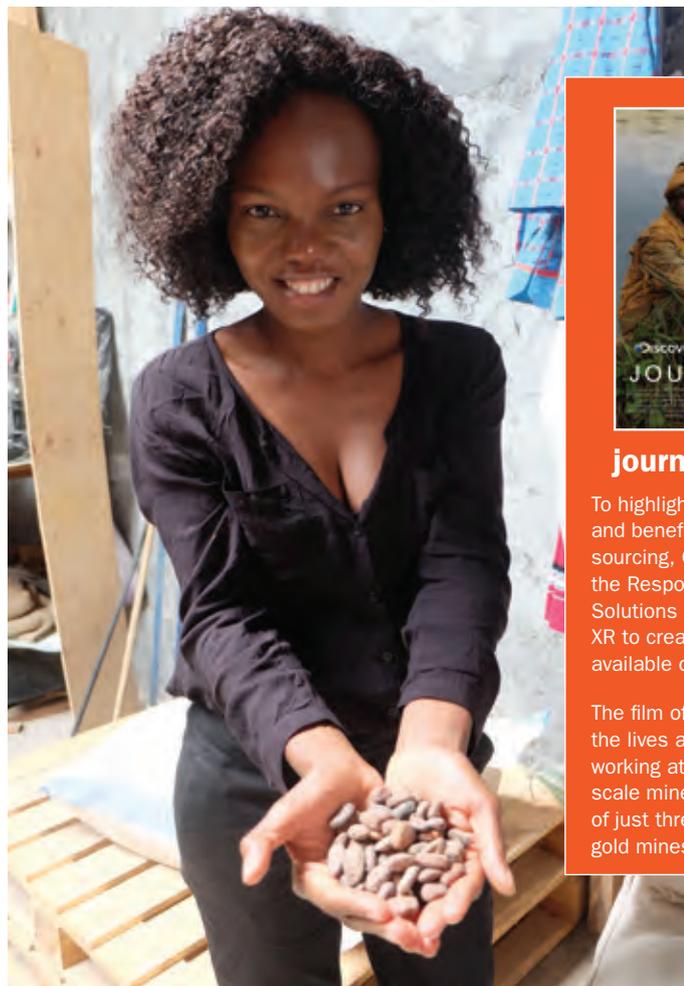


Matthew Chambers is a US accredited impact investor who founded the Chambers Federation, a leader in building inclusive and sustainable business in CAHRAs.

Nominated for the 2019 USDoS Ace Award in corporate excellence in sustainability and women empowerment, Matthew draws on experience in founding previous enterprises including a financial services company which managed over \$2.5 billion in government and bank assets during the 2008 financial crisis. He also founded a woman owned and operated construction company in Kenya which built the first entirely woman-built road in the country. He co-founded the Fair Congo Initiatives in 2017 with his wife Adele Gwet who is the managing director, formerly with the United Nations and African Union.

Now living in eastern Congo, they invest into the development of responsible supply chains of gold, chocolate and coffee and take exporting and aggregation further into the development of local value addition. In less than one year, their initiative has created the first supply chain of responsible ASM gold from a CAHRA into the United States as well as the first premium chocolate production facility in the country, run entirely by women. As the initiative grows, the addition of gold jewellery and component production, again made by women, is the newest development.

For more information on sourcing responsible ASM gold please email matthew@chambersfederation.com



journeyofgold.org

To highlight the importance and benefits of responsible sourcing, Google teamed up with the Responsible Artisanal Gold Solutions Forum and StoryUp XR to create Journey of Gold, available on YouTube.

The film offers a glimpse into the lives and conditions of those working at a low tech, small scale mine in Nyamurhale – one of just three conflict-free artisanal gold mines in the DRC.