

ESTABLISHMENT OF FINANCING AND LOAN ALTERNATIVES TO PROMOTE FINANCIAL INCLUSION IN ASGM



Establishment of financing and loan alternatives to promote financial inclusion in ASGM

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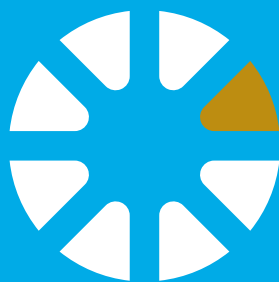
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1.

Introduction

This document addresses financing and loan alternatives designed to promote financial inclusion in the artisanal and small-scale gold mining (ASGM) sector in Peru. This effort is part of the planetGOLD Peru initiative, a GEF-funded project implemented by the Ministry of Environment (Minam) in partnership with the Ministry of Energy and Mines (Minem) and with technical support from the United Nations Development Programme (UNDP).

The ASGM sector plays a crucial role in the Peruvian economy, serving as a development driver in regions with high poverty levels. However, it faces multiple challenges, including informality, limited access to financing, lack of sustainable technology, and the environmental impact caused by mercury use. This document seeks to systematize the experiences and solutions implemented by planetGOLD Peru to overcome these barriers, promote financial inclusion, and facilitate the transition toward more sustainable mining practices.

Through this analysis, the document is expected to serve as a valuable tool for mining organizations, financial institutions, civil society actors, and international cooperation agencies interested in strengthening the sustainability and competitiveness of the ASGM sector.

2.

Background

ASGM is an important driver of economic development, accounting for 1 % of GDP. It is also a source of employment in rural areas throughout the country, directly and indirectly employing more than 1 million families and producing approximately 20 % of Peru's gold.

ASGM is developed in areas with high levels of poverty and faces several problems, such as social conflicts, precarious labor conditions, lack of formal sources of financing, as well as the negative impact on the environment and people's health, due to the precarious mechanization and technology used to carry out this activity.

In Peru, 84 588 artisanal and small-scale miners develop their activity under a formalization process promoted by the government, called Comprehensive Mining Formalization Registry (by its initials in Spanish Reinfo). Of this total, 23 % have made significant progress in complying with the necessary regulations to achieve mining formalization. In addition to the miners in the Reinfo, 2 067 miners have successfully completed this process and are fully formalized (Minem, 2024). However, despite this progress, its potential as a business continues to face numerous challenges, such as the persistence of informality, lack of access to credit, bureaucracy in the formalization process, limited technical assistance and the use of precarious technology.

In this context, financial constraints become a crucial obstacle to the growth of artisanal and small formal mining companies, as well as those in the process of formalization, as the lack of access to capital prevents the implementation of improvements in competitiveness, necessary to overcome a series of limitations, such as the following.

- **Negative perception of ASGM**
The sector's reputational problems generate distrust in financial institutions.
- **Lack of credit history or negative history**
Many ASGM actors have no credit history or an unfavorable credit history.
- **Difficulties in documentary compliance**
ASGM men and women face limitations in complying with the documentary requirements demanded by financial institutions.
- **Lack of warranties**
The absence of property titles or assets registered with SUNARP limits the ability to offer guarantees.
- **Risks associated with the activity**
ASGM is linked to risks such as money laundering, smuggling, forced labor, environmental impact and illegal mining.
- **Deficit in financial education**
ASGM actors lack training in the proper management of financial products and services, as well as in the entrepreneurial management of their businesses.
- **Limited knowledge of the sector by the financial sector**
Las Financial institutions are unaware of the particularities and needs of the ASGM sector.
- **Difficulties in locating and accessing mining operations**
Mining operations are often in remote and difficult to access areas, which complicates evaluation and increases the cost of financing.

Through the planetGOLD Peru project, the first studies on financial inclusion and gender gaps in ASGM have been developed in the country. Through these studies, the profile of men and women working in this sector was revealed, which showed that there are significant inequalities in access to and use of financial services, which limits the achievement of real financial inclusion.

Among the main results, 93 % of miners are men, 76 % demand financing for the purchase of equipment and machinery, and have assets consisting of land, real estate, machinery and vehicles. Despite having back-up assets, a rapid return business cycle and an income flow supported by documents, financial institutions limit their attention to miners because they perceive them as high-risk subjects (UNDP, 2021).

Women mineral selectors, also known as pallaqueras, earn an average income of 800 soles (210 USD) per month, which is less than the minimum living wage. In this regard, 81 % of these women do not issue any proof that can support their income, 70 % have not applied for credit at some point and the vast majority yearn to undertake some complementary economic activity, such as sewing workshops for mining clothing, warehouses, hardware stores, clothing sales, food processing, among others (UNDP, 2022). Due to the characteristics of this group, access to financing faces a more critical reality, since for most financial institutions they represent a high-risk client profile, which translates into a lack of supply of products and services, high collateral requirements or high interest rates, which they cannot afford.

Another little explored aspect of the ASGM sector is its potential for reducing greenhouse gas emissions. Currently, ASGM generates high volumes of CO₂ because many mining operations do not have access to the national electricity grid, forcing miners to use generators, motor pumps and precarious machinery that require large amounts of fossil fuels. However, these ventures face a significant barrier: the lack



of access to financing to obtain the initial capital needed to invest in more energy-efficient equipment. Therefore, the lack of a supply of financing that contributes to climate change mitigation in ASGM is a reality for actors in this sector, 20 % of which is composed of women.

3.

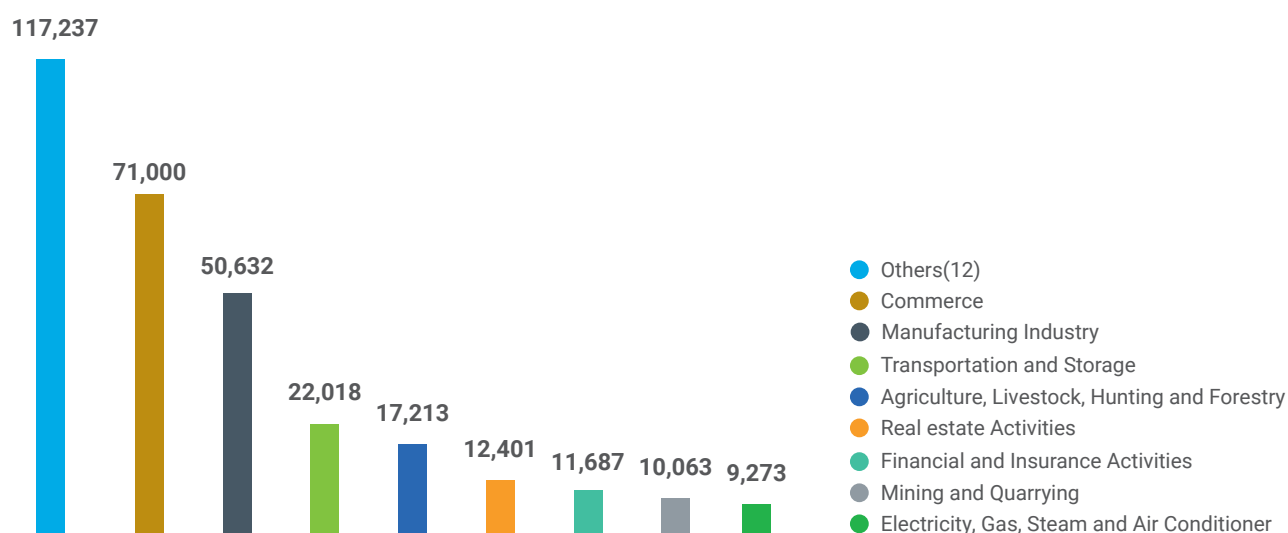
Financial System

The financial system in Peru is comprised of various entities supervised by the Superintendency of Banking, Insurance and Pension Fund Administrators (by its initials in Spanish SBS), represented mainly by banks, municipal savings and loan associations, rural savings and loan associations, finance companies, credit companies, savings and loan cooperatives, among others.

In August 2024, the regulated financial system reported a total of S/ 414,6 billion (109 billion USD) in direct loans (SBS, 2024). Of this amount, financing to the mining sector amounted to S/ 10,1 billion, which represents 2 % of total loans in the Peruvian financial system. Most of these loans, i.e. 98 %, are concentrated in large and medium-sized companies, a segment served predominantly by banks. However, 2 % of loans to the mining sector come from microfinance institutions, such as municipal savings and loan associations, which focus on serving micro and small companies. Although the SBS report does not specifically break down the financing directed to ASGM, it is reasonable to assume that a significant portion of the loans granted by microfinance institutions corresponds to ASGM, given their target audience (small and micro enterprises).

Loans for business activities by economic sector

August 31, 2024 (millions of soles)



Source: SBS, 2024

ASGM Financing

Based on the assumption that a significant part of the loans granted by microfinance institutions to the mining sector correspond to ASGM-related activities, the analysis of loans to the ASGM sector by microfinance institutions in Peru reveals several key patterns and challenges.

Until August 2024, microfinance institutions have granted loans totaling S/ 155 million (40.8 million USD) in the mining sector. Within these institutions, the municipal savings and loan associations play a preponderant role, concentrating and servicing 58 % of the loans. The figures also indicate that the municipal savings banks, such as CMAC Ica, CMAC Huancayo and CMAC Piura, are among the main institutions that finance the sector, making them important for financial support to ASGM.

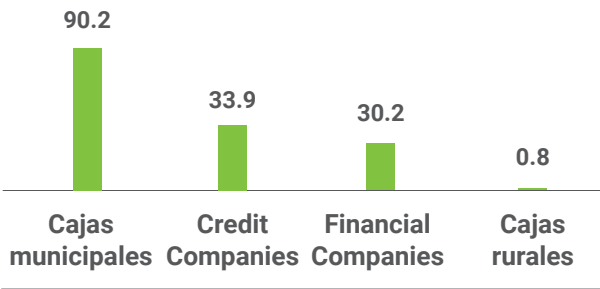
Automotive financing entities, such as Mitsui Auto Finance, EC Volvo Finance and EC Total, also have a significant representation, with a 33 % share. This suggests that a considerable part of the investments is related to the acquisition of equipment and vehicles, which is crucial for the ASGM operation.

However, despite these efforts, access to credit remains limited compared to the size and needs of the sector. Informality and lack of adequate collateral, such as concessions or property titles, continue to be significant barriers to further financing. In addition, the geographic location and nature of mining operations present additional challenges for financial institutions, which often have limited knowledge of the particularities of the ASGM sector.

While microfinance institutions are playing an important role in financing the ASGM sector, there are still major challenges that limit the expansion of their services. Consolidation of efforts among these financial institutions, coupled with the development of specific mechanisms to address existing barriers, could significantly improve access to credit and, consequently, the sustainable development of ASGM in Peru.

Loans to ASGM by type of microfinance institution

August 31, 2024 (millions of soles)



Loans to the mining sector by microfinance institution

Microfinance institution	Loans (S/ million)	Share (%)
CMAC Ica	26,3	17 %
CMAC Huancayo	22,0	14 %
CMAC Piura	21,3	14 %
Mitsui Auto Finance	20,7	13 %
EC Volvo Finance	19,3	12 %
EC TOTAL Servicios Financieros	10,7	7 %
CMAC Arequipa	6,7	4 %
CMAC Trujillo	6,6	4 %
Financiera Confianza	4,6	3 %
CMAC Cusco	4,4	3 %
Otras (16)	12,4	8 %

Source: SBS, 2024

4.

Financial education programs for the ASGM

As part of the implementation of the Financial Inclusion component of planetGOLD Peru, the CREDIMAPE - Financial Education for ASGM program was developed. This program was designed with the purpose of offering training and awareness-raising aimed at ASGM men and women, through essential tools and knowledge to strengthen their financial management skills. The main objective was to enable these actors to make informed strategic decisions when seeking financing, foster habits that promote good financial health and build trusting relationships with financial institutions.

The CREDIMAPE program was structured in four modules with staggered topics designed to address different aspects of finance:

- **Module 1:**
Understanding the world of finance
- **Module 2:**
Good financial practices for ASGM
- **Module 3:**
Finances of my business.
- **Module 4:**
Access to financial products for ASGM.

The first two modules introduce general concepts of financial inclusion, the financial system, the importance of the time value of money, indebtedness and the tools needed to achieve optimal financial health. Then, the third module focuses on specific tools for controlling finances within ASGM businesses. Finally, the fourth module addresses financial products designed specifically for this sector and the requirements for accessing them, according to the internal policies of financial institutions.



CREDIMAPE - Financial Education for ASGM.

The program also adapted its materials to cater to specific audiences, such as women gold handpickers (known as pallaqueras), through the program Pallaq - Financial Education for Women Gold Handpickers. The modules for this target audience were designed as follows:

- **Module 1:**
Good financial practices
- **Module 2:**
Budget
- **Module 3:**
Entrepreneurship
- **Module 4:**
Access to financial products for women gold handpickers

In the first two modules, general concepts of financial inclusion and basic tools were presented. The third module focused on the development and strengthening of enterprises, as well as the importance of leadership in business. Finally, the fourth module explored financial products designed specifically for women gold handpickers, as well as the requirements for accessing them.

During the training sessions, between September and October 2022, 11 workshops were held in the Arequipa, Piura and Puno regions. These workshops were attended by 188 women gold handpickers and 59 miners (specifically, 13 women and 46 men).



PALLAQ - Financial Education for Women Gold Handpickers.

5.

Solutions for financial inclusion of ASGM

A total of four financial solutions, aligned under a gender approach, were designed by planetGOLD Peru with the objective of promoting the financial inclusion of ASGM in Peru. Of the mentioned figure, three credit products were implemented, called Crece Minero (Miner Grows Credit), Mujer Pallaquera (Pallaquera Woman Credit) and Minero Emprendedor (Entrepreneurial Mining Credit); in addition to a financial mechanism articulated with beneficiation plants, which are described below.

Through these financial solutions, at the end of August 2024, 86 loans were disbursed to ASGM for an amount of 2.5 million soles (0.66 million USD). Through this financing, 8 legal entities and 78 natural persons were assisted, of which 18 were women and 60 men.

5.1. Credit products implemented

Minero Emprendedor Credit

Financial product developed as a pilot project by Caja Rural de Ahorro y Crédito Los Andes, with support from planetGOLD Peru in the design phase, and implemented in alliance with the international organization Solidaridad, under the name "Crédito Minero Emprendedor" (Entrepreneurial Mining Credit). This product was aimed at financing fixed assets (machinery and equipment) to improve technology and productivity in artisanal mining operations working under a model of collaboration and coexistence with the mining company Oref.

During the pilot phase, Los Andes committed to allocating 2 million soles (0.52 million USD) in loans. However, due to the remote location of the mining operations and coordination difficulties among stakeholders, between April and November 2023, Los Andes approved four loans for a total of 91,000 soles (24,000 USD), with an average annual effective rate of 44 %. All these loans were granted to men.

Crece Minero Credit

Credit developed by Caja Ica, with the support of planetGOLD Perú, which was launched in October 2023, as part of its financial offer. This product is aimed at formal artisanal miners or miners in the process of formalization who exploit, benefit or commercialize minerals in allowed areas of the country. The financing is for working capital and the acquisition of fixed assets, with payment terms of up to 60 months.



Minero Emprendedor Credit.
Source: Solidaridad, 2023



Launching of ASGM loans by Caja Ica.
Source: UNDP, 2023



Crece Minero Credit.
Source: Caja Ica, 2024



Mujer Pallaquera Credit.
Source: Caja Ica, 2024

Mujer Pallaquera Credit

Credit developed by Caja Ica, with the support of planetGOLD Perú, which was launched in October 2023, as part of its offer of financial products aimed at women entrepreneurs. This loan is designed to meet the financing needs of women known as pallaqueras, who are engaged in the manual selection of gold, allowing it to be used for both working capital and the acquisition of fixed assets. The product stands out for offering an additional benefit, where the client can choose, on a mandatory basis, between insurance coverage for cancer diagnosis or a discount for on-time payment.

Since the launching of the Crece Minero and Mujer Pallaquera products in October 2023, Caja Ica has disbursed 82 loans totaling 2,4 million soles (0.63 million USD), with an average rate of 39,5 %. These loans benefited 8 legal entities and 78 natural persons, of which 18 were women and 55 men.

The financing available for the ASGM sector from Caja Ica represents approximately 2.5% to 3% of its total loan portfolio, in line with its internal sector concentration policies. With a total loan balance reaching 1.27 billion soles as of August 2023, it is estimated that up to 38 million soles are allocated as resources to support the artisanal and small-scale mining sector.

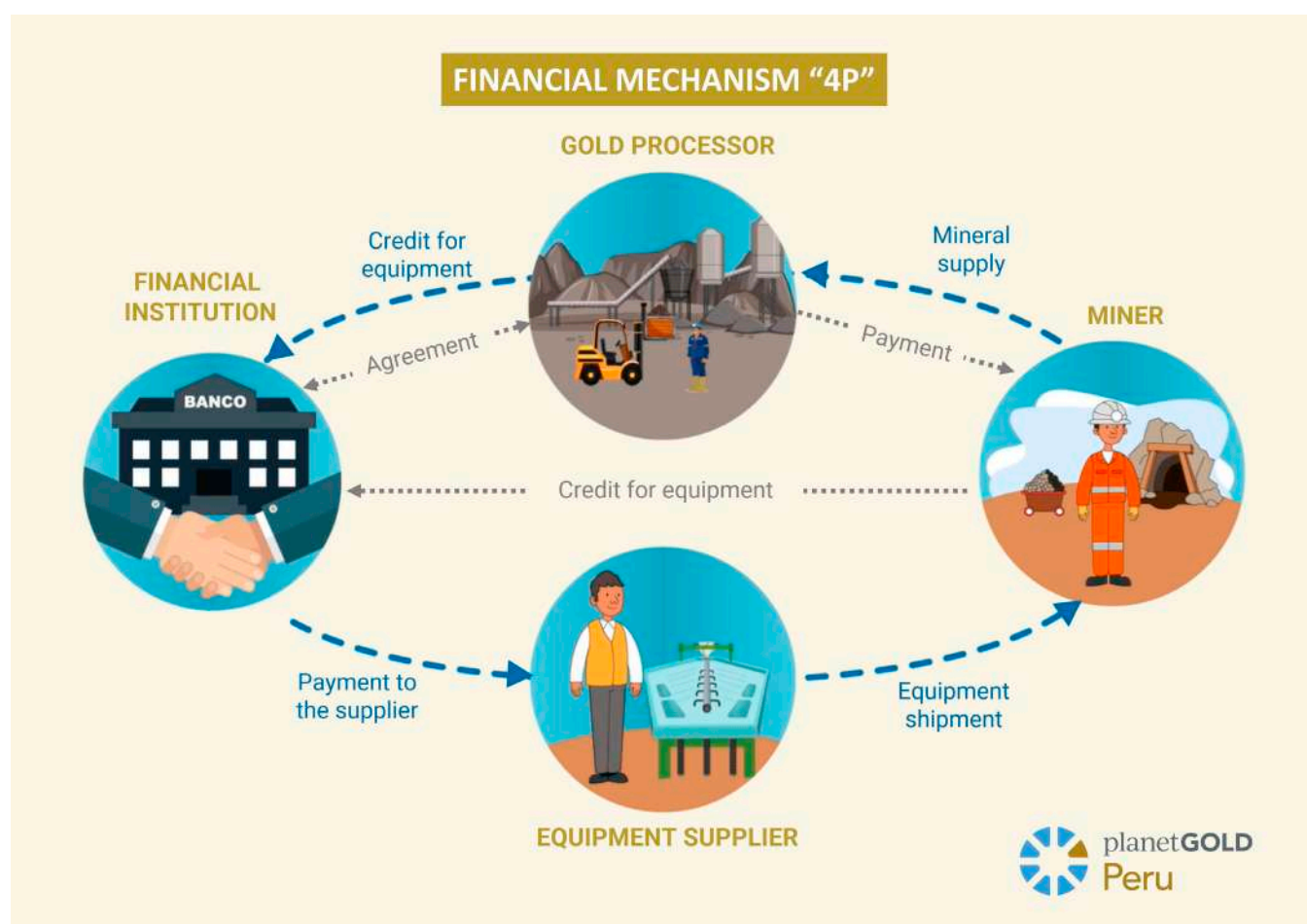
5.2. Articulation with processing plants

Through this mechanism, we sought to mitigate the credit risk by implementing a closed payment scheme. This scheme involved the Orex mining company's beneficiation plant, the Los Andes financial institution, artisanal miners working in the Orex's concessions, mining technology suppliers and Solidaridad, as a technical assistance provider.

As a first step, Solidaridad identified the financing needs of Orex's mining suppliers and conducted a preliminary assessment to verify compliance with requirements. At the same time, potential technology suppliers were analyzed. Los Andes then evaluated the miners and approved the loans, which were disbursed directly to the supplier of the machinery or equipment.

As part of the credit documentation, the miners signed a third-party payment authorization, which allowed the installments to be deducted from the invoices corresponding to the gold sold. In this process, Orex acted as withholding and paying agent, by crediting the loan installments directly to Los Andes, and paying the invoices to the miners with the corresponding discount applied.

The four loans, for a total amount of 91,000 soles (23,947 USD), approved through the Mining Entrepreneur Credit, were granted through this mechanism of articulation with beneficiation plants.



Articulation mechanism with profit plans.

5.3. Articulation with gold buyers

The connection between small mining organizations and international refiners emerged as a promising solution to improve access to financing and generate new opportunities in global markets. This approach raised awareness among artisanal and small-scale miners about the importance of complying with international standards, which would not only facilitate their entry into new markets, but also increase the confidence of buyers and financial institutions, thus facilitating their access to credit.

To explore this solution, planetGOLD Peru facilitated the approach between a European refiner, interested in acquiring gold from ASGM and open to provide financing, and an artisanal mining company in need of liquidity to improve its production operations. With planetGOLD Peru's support, a representative of the refiner visited the artisanal mining operation and shared key observations and recommendations to establish a commercial agreement and evaluate possible lines of financing. Based on these recommendations, the mining company was motivated to develop an investment plan focused on optimizing its processes.

5.4. Emprise Pallaquera Initiative

The Emprise Pallaquera initiative, developed in collaboration with the Solidaridad organization under a grant model, has stood out for its significant impact on women engaged in manual gold sorting in the regions of Arequipa, Piura and Puno. Its objective was to improve the economic situation of the pallaqueras, while promoting the creation of group enterprises, providing an alternative to diversify sources of income and reducing dependence on manual gold sorting.

Although the collaboration between planetGOLD Peru and Solidaridad had an initial duration of 12 months, Emprise Pallaquera continues to operate thanks to the financial support of TraceAbility Premium, an initiative managed by the Swiss refinery ArgorHeraeus, with technical support from FUNDES Latin America (Solidaridad, 2024). This alliance enabled the ventures to access an enhanced training program, including business management workshops, and the implementation of the business plans proposed through the Seed Capital Competition of the Emprise Pallaquera Initiative, held twice in 2023 and 2024.

Through these, the projects received co-financing for equipment and supplies to implement their business plans. In addition, they received support to become formal companies, register with SUNARP and receive the necessary guidance to start their operations and establish their first commercial premises (Solidaridad, 2024). Thus, this constant accompaniment highlights the initiative's capacity for expansion and long-term viability, which demonstrates its potential to generate lasting changes in the lives of the pallaqueras.



*First Seed Capital Competition of the Emprise Pallaquera Initiative held in Lima.
Source: UNDP, 2023*

6.

Main findings of the systematization

The process of financial inclusion of the ASGM sector in Peru faces complex challenges that require innovative solutions adapted to the characteristics of the sector. The following are the main findings that, based on the experience of the planetGOLD Peru project, should be considered to promote financial inclusion of ASGM.

Strengthening trust between financial stakeholders and ASGM

Building trust between financial actors and the ASGM sector was a fundamental pillar for implementing the access to finance strategy. Overcoming mistrust towards a sector that is often stigmatized and associated with illegal activities required a focus on raising awareness of the regulatory framework, in which it was emphasized that formal ASGM or ASGM in the process of formalization is not illegal mining. This point was confirmed by the financial entities after consulting the SBS on the feasibility of financing the sector. The SBS responded clearly by stating that it is possible to grant financing to ASGM miners as long as they have completed their formalization process or are registered in Reinfo. In addition, trust was strengthened through internships organized for the financial actors in the mining operations, which allowed them to learn first-hand about the magnitude of the activities and assets of the miners.

Financial inclusion strategy for ASGM with a microfinance approach

Given the lack of experience of the financial sector in financing ASGM and the absence of credit history in most of its actors, it was decided to start with low loan amounts. This approach sought to generate a progressive escalation in the amounts granted, while payment indicators were established, and credit experience was built for financial institutions. Although

the current offer does not completely satisfy the financial needs of mining operations, it constitutes a significant advance by facilitating the creation of a credit record and laying the groundwork for broader and more favorable access to financing in the future, under better conditions.

Design of specific financial products

The development of specialized financial products, such as the Crece Minero and Mujer Pallaquera loans, which consider the particular needs of the sector, have been fundamental in promoting financial inclusion. Although these products represent Caja Ica's first experience and are in the consolidation phase in the market, they have been able to respond to the challenges of the sector, such as the fast business cycle, the lack of collateral and the remote location of operations.

Gender focus in financial solutions

Financial solutions should consider gender inequalities within ASGM, as has been done with the Mujer Pallaquera Credit. This approach has allowed access to financing for women, who were traditionally excluded from the financial system, offering additional benefits such as health insurance or discounts for timely payment as incentives.

Financial education adapted to local realities

The implementation of programs such as CREDIMAPE and Pallaq demonstrates that financial education must be accessible and adapted to the realities of the ASGM sector. It has been identified that many miners face difficulties in keeping adequate records of income and expenses, therefore, it is considered essential that training be continuous and oriented towards strengthening business management and financial decision making. In this regard, the focus should be

on creating and maintaining sound financial records, which will enable miners to access financing and thereby improve their competitiveness.

Articulation with actors in the gold value chain

Collaboration with key actors in the sector, such as processing plants and technical assistance and technology providers, allowed the implementation of a closed payment mechanism that was attractive to the financial sector, due to the reduction of risks associated with financing. The model of articulation with companies such as Minera Oref, which allowed the purchase of machinery through credit and the payment of installments discounted from gold sales, is a successful example of how to mitigate risks and facilitate access to financial resources.

Supporting local entrepreneurship as a livelihood alternative

Initiatives such as Empeñe Pallaquera, which encourage the creation of group enterprises among ASGM women, represent an excellent practice for diversifying sources of income and reducing dependence on mining labor. These ventures must be accompanied by training in business management, leadership and training in business plan development, which helps ensure the viability of the projects and the inclusion of the communities in local economic development.

Technical support and training for financial institutions' staff

Financial institutions that are going to grant ASGM loans should have an ASGM advisor specialized in the technical and regulatory aspects. This position is essential to provide support to the staff dedicated to the placement of ASGM loans, to participate in the credit

committees to evaluate the proposals presented and to supervise the correct registration of loans under the specific product category. Another aspect to consider is the high turnover of staff in microfinance institutions, which highlights the need to establish a permanent training program on ASGM-related topics and the possibility of integrating it as part of the induction process for new staff. This would ensure continuity and quality of service to the sector, especially when products are in the consolidation phase.

Clear processes and responsibilities

In processes that involve the articulation of multiple actors, such as the mechanism proposed in the gold value chain, the importance of having a document that clearly defines the roles, responsibilities and procedures of each of the parties involved was highlighted, to avoid duplication and improve the workflow between the parties. In addition, commercial follow-up was perceived as an approach to be incorporated, to monitor key performance indicators (KPIs), such as prospecting, placement, timing, among others, which represent a good practice to optimize processes, while allowing each stage to be more efficient and measurable.

Soft and sociocultural skills of credit placement staff

The staff in charge of interacting with the ASGM sector for credit placement must have a set of technical and sociocultural skills that facilitate effective communication and close accompaniment. The success of credit placement depends not only on the financial offer, but also on the staff's ability to understand the miners and recruiters, as well as to build relationships of trust that allow for a clear transmission of information, overcome barriers and generate an environment of collaboration.



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