

ASM AND LSM RELATIONSHIP

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LAYOUT

- INTRODUCTION
- WHAT HINDERS THE ASM FROM GROWING TO LARGE SCALE MINING?
- HOW TO ADDRESS
- FINANCING ASM
- SUCCESS STORY ON MENTORSHIP
- LSM PERSPECTIVE
- 17 TOOLS (ICMM TOOLKIT)
- CONCLUDING REMARKS



INTRODUCTION

- The ASM – LSM relationship is still being characterised by:
 - Lack of trust
 - Conflictuous
 - Partial /Total separation
 - Hate
 - Etc.

WHAT HINDERS THE ASM FROM GROWING TO MEDIUM AND LARGE SCALE MINING?

1. Lack of finance
2. Lack of finance
3. Lack of finance
4. Technology
5. Legal and regulatory compliance
6. Entrepreneurship spirit
7. Management and technical skills

HOW TO ADDRESS

FINANCING ASM

- ❑ Financing ASM is one of the most difficult issues that limit their potential to grow. Financing is required for exploration, operation, both in the form of loans and equity.
- ❑
- ❑ Financing of exploration or geological investigation to identify suitable areas for ASM has been a challenge. By its quantum and high risk nature, with little direct benefit to the financier, it has not been easy to get either government or donors to fund such investigations. Gov't or donor funding, though sparse, has rather been directed at acquisition of equipment and working capital when viable projects are demonstrated.



FINANCING ASM

- ❑ Loan finance has been made available in a number of cases through Government loan schemes, from financial institutions and from special purpose funds.
- ❑ In Zimbabwe, government has over the years implemented a number of support programmes including loan schemes.
- ❑ In Mozambique, the FFM is a mining development fund set up by the Government to help ASM gain access to finance and to market.
- ❑ In South Africa, Government facilitated the establishment of a loan/private equity fund, the African Mining Fund, with the help of IFC, specifically to provide finance for small scale operators.
- ❑ These schemes, however, all assume the ability to pay back borrowed funds, viable business plans, and this is the biggest problem for most ASM operations. Such schemes would therefore require that ASM operators to have ready access to the business development skills.



- Equity-based financial schemes, JV partnerships, venture capital funds, investment banks funding, unit trust or mutual funds, and stock exchanges are also available but require bankable projects.
- Such conditionalities make access to these funds by small-scale miners very difficult.
- However, there are a few cases where ASM have been able to access these funds successfully.
- These include an amethyst JV between a Zambian company and a Swedish partner, underwritten by HIFAB, a Swedish donor agency; and Sable Zinc an equity sharing Zinc Tailings Recovery Project. The company was formed by Kabwe Power and Metals Ltd. (KPM), comprising ex miners, the Commonwealth Development Corporation (CDC) and a technical partner with experience in the processing of zinc.
- The Munyene JV in Moz, between the association and SA mining investment house. Equity 75%:25% on production.

- The big lesson from these success stories suggests that a technical partner is crucial to accessing equity finance and providing vital technical expertise. Equity investors always seek compelling value for growth management experience, robust cash flows, good ore reserves and demonstrated team experience to manage risk (Goss, 2009). These are all attributes that are deficient in ASM operators.

- Cooperation between ASM and LSM represents an avenue for ASM to access finance and technical support.
- Essentially this is by a mentoring relationship and not a joint venture.
- The approach is that a LSM company adopts several SSM companies and provides them with technical and business support, including guaranteeing their borrowings from commercial financial institutions. The SSM companies are expected to graduate to fully fledged businesses over a given period, normally five years, after which the LSM Company will adopt another company (UNECA, 2009).



SUCCESS STORY ON MENTORSHIP

- Example: SA - The African Rainbow Minerals (ARM), which started off as a small contract mining company called Future Mining in 1994.
- In 1998 ARM acquired some marginal shafts from Vaal Reef on favourable financial terms, and this was followed by the purchase of other marginal shafts from AngloGold.
- Today ARM is the world's fifth largest gold producer and a leading diversified South African mining and minerals company with interests in platinum and nickel (ARM Platinum), coal (ARM Coal), Iron and chrome (through ARM Ferrous), gold (Harmony) and an exploration wing (ARM Exploration).
- ARM has recently started construction of a new copper mine in Zambia, known as Konkola North Mine, at a cost of \$380 million in partnership with Vale do Rio Doce.



Another success story

- The other example come from Zimbabwe (ZIMASCO), LSM segregated their claim (identified areas that are not suitable for LSM) and sub-let them to registered ASM. The LSM provides working capital, tools, technical support and geological info. The ASM has to operate within safe and environmentally friendly standards and then sell all production to LSM. Theoretically the ASM should graduate after a certain period of time.
- Also LSM can segregate their claim and lease to ASM on royalty base arrangement (e.g. 5%). Again the LSM provides technical.



- The notion of LSM companies mentoring ASM holds win-win outcomes. For LSM, it provides reputational returns (improved corporate image and acceptability in the community) and financial returns arising from subcontracting out non-core functions, in addition to improved relations with SSM companies.
- For ASM operations, mentorship facilitates technology and skills (both entrepreneurship and specialised skills) transfer, at low cost, allows small scale miners access to working capital, promotes legal, environmental and regulatory requirements compliance, and improves the overall working of ASM due to the adoption of best practice (UNECA 2009).
- Yet there are significant policy lessons before mentorship of ASM by LSM can deliver its full potential. Even though this appears to be a good intervention for SSM, the applicability at the artisanal end is questionable. The policy needs to be well structured and monitored to ensure mentorship.

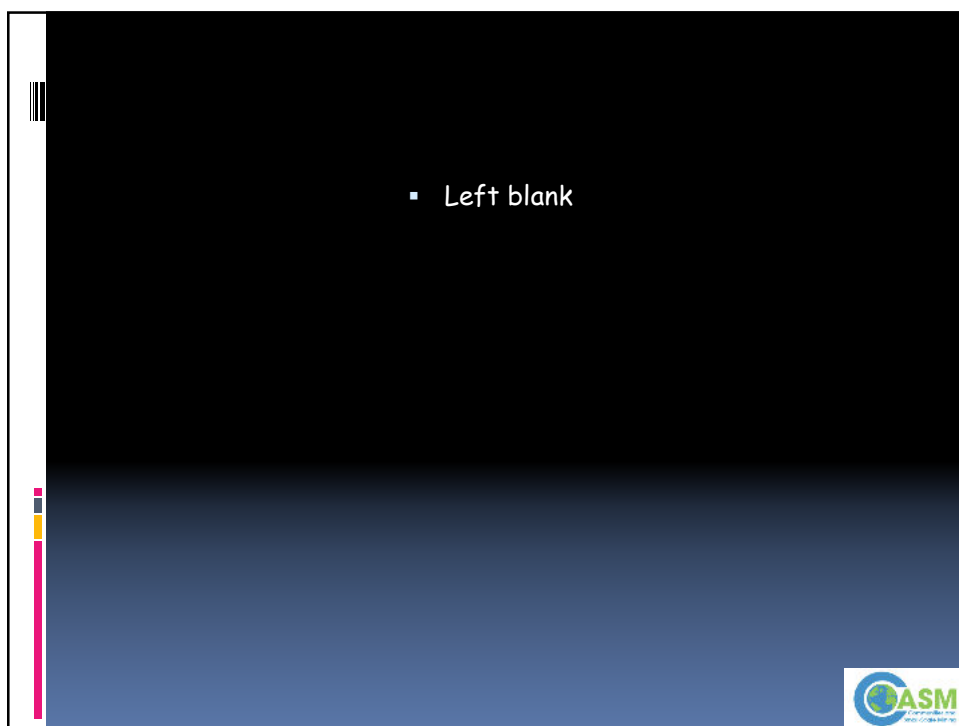
- Productive collaboration between ASM and LSM is an avenue that has not been fully exploited in mining sector.



IN LYBERIA (a policy intervention!)

- There has always been a problem of coexistence between ASM and LSM companies.
- The artisans are usually removed from their mining properties when LSM operations commence.
- This usually results to unending conflicts in the mining sector.
- To resolve this issue, the Government of Liberia has developed policies for coexistence by allowing artisans to continue operations in exploration areas until production lots are declared by LSM companies.
- At such times the ASM are paid for the areas taken from them and employed by the mega companies.
- This has brought much peace between ASM and LSM.





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