PUBLIC-PRIVATE ALLIANCE *for* RESPONSIBLE MINERALS TRADE

PPA Data for Impact Symposium

Discussion on Implementation and Evaluation of Conditional Microcredit for Artisanal and Small-Scale Miners with Jihae Hong

Attendee 1: It's a great initiative that you're taking upon using microcredit to help those people in the audience understand that this kind of economics would feel quite different for those people. Reminded me of a book called *Poor Economics*.

Jihae: Actually, that's the kind of world I come from. The organization that we're working with in Sierra Leone and Liberia. They are an IPA, they are employing that method, those methods that are described in *Poor Economics* to test policies and programs. We want to be able to use that. But we're in the beginning stages of that project where we want to actually verify that an applied product can offer better terms and can inform the financing model that exists currently.

Attendee 2: Thanks for your presentation. I think you might benefit from speaking to others who worked on financials in the ASM space. There's been quite a lot of work in South America and West Africa and Central Africa around financial inclusion, which seeks to get at the issues that you're exploring. Starting up in Mali, I think maybe some of this vision is if you make it conditional upon the realization of certain standards, the standards are actually very difficult for the miners to achieve by themselves.

And there are a lot of barriers. If an illicit actor or a single actor is pre-financing gold that comes without conditions, that's a huge incentive for them already. You have to consider, as well, the margins because administrative burdens, fiscal burdens in particular in countries, mean that the margins can even be in the negatives if you actually work through legal channels. To encourage artisanal miners to sell legally and trying to incentivize them when it actually costs more, and then making that conditional, it can be very difficult to invoice them. There's the realization of standards that's difficult. But then there's the fact that your competitor is the informal market that doesn't provide any conditions whatsoever. I think there's lots of information out there that you might want to explore in your design stage.

Jihae: I appreciate that. And I think, in some ways, the conditionality is interesting and something that we want to explore. But I think on the first question, what you are getting at is: can you actually offer better terms, loan terms, than the informal lenders? And, actually, we're not confident that is the case.

I understand imposing conditionality and also monitoring them is very expensive. The first question is, can you actually offer better terms? And the informal lenders are working in that space who are thought to be exploitative but may not be. And the second question is like, what is the additional cost for the miners and also for the financial institution to verify those conditionalities and make that part of the loan term? It's difficult to compete with informal lenders when they're not bound by any of the constraints.

Attendee 2: Yeah. I'd encourage you to check out Doris Buss, and her academic partners from early on who work on ASM. And you might want to look at the Just Gold Report from DRC which is also adapted to Ivory Coast because, for example, we've looked at the incentives over time and what motivates the miners and what doesn't and things like actual pricing. Transparency is actually more important sometimes and is a bigger motivator to make sure that they're not being screwed around. But looking at traders, I like the way you framed it in terms of the conditions of the loan might actually not always be seen as not favorable by informal lenders because they also use gold as cash.

And they're often intermediaries, essentially recycling, taking gold out of the community. Cashing it in for U.S. dollars or commodities, and then circling those commodities back into communities that might not have access to either cash or commodities. And they'll go to a neighboring town and cash their gold and buy like a truckload of palm oil and gasoline and bring that into the community. They play a role far beyond just lenders. They're essentially commodity traders for desperate communities. So communities may have a good relationship with them, or they might have a terrible relationship with them. It depends on the nature of their dealings. But I like the idea of looking at that relationship in a more nuanced way than assuming that the lenders are bad actors. I think that's an important consideration.

I think there's newly emerging work around that, too, in Cote d'Ivoire. That could be potentially interesting. That's certainly the case with me that traders need to be included as part of the solution and not set aside because they also become spoilers. You can't scale any of these systems or operations if you don't have the traders on board because they run the business in their sector.

Jihae: You've brought up questions about pricing for the gold a couple times. Is there a reason, in the prior work that you've done, why that matters? As in, why did you impose any requirement how the miners sell their gold?

Attendee 2: Well, we were involved and still involved in a traceability and due diligence program where we try to create incentives for miners to want to sell via legal channels in accordance with standards and regulations. That pricing transparency is important because the informal and illicit traders sometimes seem to offer a higher price, but they're actually cheating on the way they use their scales, but also because the spot price for gold is extremely high, generally, because it has this monetary utility as a currency locally. So you're working in a distorted economy to try to incentivize miners to change their behavior.

In most contexts for ASM gold in Africa, offering a premium, for instance, is not very difficult because the margins are very small. So the market doesn't have much of an appetite or can't bear offering important premiums, that would be maybe the tipping point to encourage miners to want to sell legally. You have to look at other ways to decrease the costs locally and to think about who the competitor is and how to level the playing field rather than expect the international market to pay 20% above spot price, for instance.

Attendee 1: Jihae, you said that you worked with Darin Christensen on this project. I was curious as to how this idea was incepted because I recollect that the prior work that you did was with IPIS, taking into consideration whether due diligence programs actually helped alleviate the business, armed groups, and the stability within the area. But then it seems like this is a new project that I've seen for the first time.

Jihae: Yes, we work with Darin and Graeme here at UCLA. Part of the reason that our work started, many of our initial partners are based in West Africa. Graeme and Darin, they've had prior work in the region. Darin has done a lot of work in Sierra Leone even before he joined PRG. And same with Graeme, he's been working in Nigeria for a while. It's more that the work that we did with IPIS and with Ulula on the due diligence report is the outlier. We were brought in because we have a research method expertise, and they were looking to see how to construct a better comparison group with the data they had, and solicit our advice on how to do the sampling and what data to collect for that report. But it's not that we are focused on due diligence as our main topic of interest.

Attendee 1: Apple also cited the work that you did with IPIS in their Conflict Minerals Report. So it seems like Apple is also very glad to see the immediate impact.

I found the outliers in the study to be incredibly useful for the people within the conflict minerals community and the work that you're doing now. It's just like I had mentioned before along the lines of *Poor Economics.* Is it something that would require established infrastructure to push forward, or is it already in the works? You said that you're not confident about whether this loan will be as good as what's available on the informal market.

Jihae: Right now, we're putting in field infrastructure to be able to collect data to answer that question. We typically do the work of collecting data ourselves and that's the expertise that we bring. We are hoping to start collecting that data in August. And yes, we have research infrastructure to be able to do that. We work primarily with self-collected data and not administrative data. Because we have prior experience working in Sierra Leone with different research partners and also with government agencies, we have some connections and partners in the country to be able to do that work. I think in terms of Apple, I think Apple commissioned a study that we worked on with IPIS and Ulula.

I think the motivation for that was to actually look at the community level impacts of due diligence efforts. It's not surprising that they cited it because I think they were looking to actually understand those effects and commission the study to learn about them.

Attendee 3: You talked a lot about the job interviews and talking with miners that you guys have done to inform the structure of the study. But it seems like the supporters play a really key role in the financing. How much have you been able to talk to them about the nature of the financing they're giving, given the riskiness of the investment. Obviously, they're not going to admit that they're exploiting because they have access to credit, but just getting a sense of the riskiness.

Jihae: A lot of that information that we presented here is from conversations with government regulators and miners. But we've heard anecdotally that, obviously, the exporters don't think of themselves as exploitive. They feel like they're working in a super financially risky space. And that's the data that we're hoping to gather in August. Our primary data collection will be with supporters and also corroborating the information with interviews with miners that they have supported. We want to understand not just the profile of the mines that were successfully supported, but also all the mines that they supported that failed to understand how risky financing these artisanal gold operations is.

This two-pronged approach proposes 1) a microcredit scheme that can be accessed by miners who meet conditions related to formalization and/or regulatory compliance, and 2) a measurement tool to evaluate the conditional microcredit scheme, including data collection instruments and a random, control trial.

Jihae Hong is the Managing Director of the Project on Resources and Governance. She previously worked for Innovations for Poverty Action where she established the Myanmar Country Program and oversaw a portfolio of impact evaluations on land rights, nutritional cash transfer, vocational education, and information and communications technology in Myanmar and Mongolia. Jihae has a bachelor's degree in mathematics a master's degree in Quantitative Methods in Social Science.