



**▶ KIAN SMITH
GOLD SOURCING
PROGRAM**

ASGM TRANSFORMATION IN NIGERIA

VERSION 1 – OCTOBER 2019

Last February

OSUN

Chemical-Free Gold

Kian Smith Gold Sourcing Program (KSmith-GSP) in Osun incentivized 98 ASGM operators to become registered businesses that are tax compliant, producing gold responsibly and selling a significant volume of chemical-free gold to the Kian Smith buying office in Ilesha. Other ASGM operators in the state and other parts of Nigeria are in the process of joining the KSmith-GSP.

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1. Executive summary

The *Kian Smith Gold Sourcing Programme (GSP): ASGM transformation in Nigeria* serves to document our company's evolution over recent years as a transformational stakeholder in the Nigerian gold sector. It is imperative that we begin to create and develop our gold economy in a way that empowers from the ground-up through inclusion and leaves not only a lasting positive and sustainable impact on the next generation and on the environment but also builds leverage for Nigeria, the West African region and indeed the entire African Continent in navigating its role as gold producers, traders and consumers within the global context.

As a mining and minerals trading firm, with a firm vision to pioneer the establishment of Nigeria as the gold market centre of Africa, we launched several initiatives towards creating a regional gold policy that supports regional monetary policy and promotes fair trading practices. In the context of an informal gold sector, overwhelmed by revenue and data leakages, we realised the key was to support the organisation and structuring of the value chain, and commenced construction of Nigeria's first gold refinery that will be pivotal to the transformation of the West African Gold ecosystem.

All these initiatives culminated in the emergence of the Kian Smith Gold Sourcing Programme (GSP) that centred on empowering ASGM operators to develop as small businesses and provide them with incentives to encourage their working within a legal framework. In 2016 we created *ZokiaSystems*, a digital mobile application to register and structure the artisanal miners in the country and provide financial and security services. Then we identified and registered the operators as SME's and ensured they received government recognised identity documents. We mapped out the artisanal mining areas and spent time finding the title holders to facilitate agreements between ASGM operators and title owners. We incorporated best practices into our framework, including incentives for mercury-free gold and overall safer mining practices. Adhering to the OECD Guidance on Due Diligence for the Minerals Supply Chain has ensured we practice and encourage traceability, due diligence and responsible sourcing practices

The Kian Smith GSP has also impacted the Nigerian government and the public sector. It has created an ASGM sector compliant with the legal and tax obligations providing quantifiable data for government on the populations they serve as well as on the land and mineral resources that the country possesses. In addition, revenue collection becomes easier, more transparent and organised due to the catalyst effect of the GSP, where each operator is registered as a legal entity with the CAC, has a Tax Identification number and SME operates on a licensed concession or has the appropriate mineral permit.

The GSP champions a sustainability strategy which imbeds social inclusion, environmental stewardship and mining sector development across the entire value chain. . Furthermore we consider that business can be a critical partner to government in achieving the Global Goals. Hence our business strategies have a strong sustainability component with the aim to create positive impact contributing to achieving the Nigerian Economic Growth Recovery national plans and the UN's Sustainable Development Goals. Our Corporate Responsibility policy will go further in convening partners and co-creating solutions with stakeholders. For example training in financial literacy, providing access to savings schemes and incentive programmes to change behaviour. Environmental sustainability is considered in redesigning production processes and improving practises. In short we envision the gold sector to be based on inclusion, sustainable development; economic empowerment and ensuring basic human rights are respected. These are core principles when designing and implementing our business strategies and sustainability programme.

While several milestones have been reached along the way, and critical strategic partnerships formed through the development and implementation of the GSP, our achievements to date only serve to highlight the work ahead. Creating the required infrastructure for an efficient and robust value chain is still a large part of that work. However, we are proud of what we have pioneered and look forward to the next milestone of an operational gold refinery delivering gold bars of 99.99% purity in line with LBMA standards.



Artisanal mined gold in Osun State

2. Background and context

About Kian Smith Trade & Co

Kian Smith Trade and Co is a mining and minerals trading firm. Its mineral expertise and mining portfolio is mostly on gold exploration, exploitation and processing. The company is involved in small-scale gold mining, artisanal mining solutions and services.

It recently partnered in the development of ZokiaSystems - a mobile technology platform that organizes the local minerals market. It has been successfully piloted among artisanal gold miners in Kaduna State. The company has also piloted gold development schemes for national economic growth.

Over the last six years, we have been a market strategist and organizer for the metals and minerals market in Nigeria as well as a commodity market strategist and organizer for agro commodities. In addition, we have focused on minerals aggregation, business logistics, trade strategies and market brokering in Nigeria. This included organizing the Nigeria Lead-Zinc export market for MRI. Our company continues to serve as a trade strategist and market broker for other national and international interests.

We own several Gold Exploration, Small Scale Mining & Buying Centre licenses and we are a consultant to Federal and State Governments in Solid Minerals especially with regard to Artisanal Mining Organization and Mineral Value Chain Development. The company has pioneered several Gold Artisanal Mining Initiatives (GAMI), piloted a national gold trading and refining plan, initiated the government to draft a National Gold Policy & established development plans for the first gold refinery in Nigeria.

Our vision for a thriving gold sector in Nigeria

Our goal is to pioneer the establishment of Nigeria as the gold market centre of West Africa. Despite the mostly informal structure of the gold market, Nigeria has one of the largest economies and populations in Africa. It is also a top contender for the largest emerging market for luxury goods in Africa, especially gold.

Initial steps taken to attain our vision

Kian Smith is actively involved in the transformation process towards establishing a gold market centre in West Africa. We are working towards a regional gold policy that supports regional monetary policy. This will integrate and develop the gold value chain into the regional economy and

strategically organize the disjointed West African gold business into a formal gold economy with positive impact creation on society.

We have:

- Pioneered several Gold Artisanal Mining Initiatives (GAMI).
- Piloted a national gold trading and refining plan.
- Initiated the government to draft a National Gold Policy.
- Established development plans for the first (internationally recognised) gold refinery in Nigeria and West Africa.

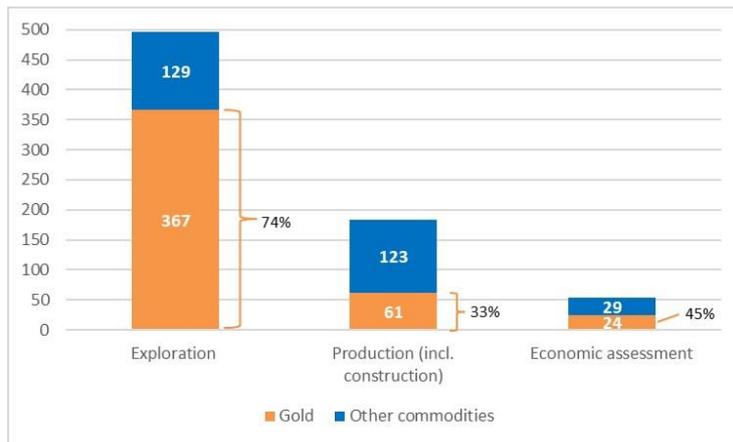
Industry overview: Gold production in West Africa and Nigeria

Worldwide, at least 300 million people – workers and their families – depend on artisanal mining compared to about 7 million people in industrialized mining. Although production from large-scale mining is high, ASM creates 5 times more direct employment and 10 times more indirect employment.



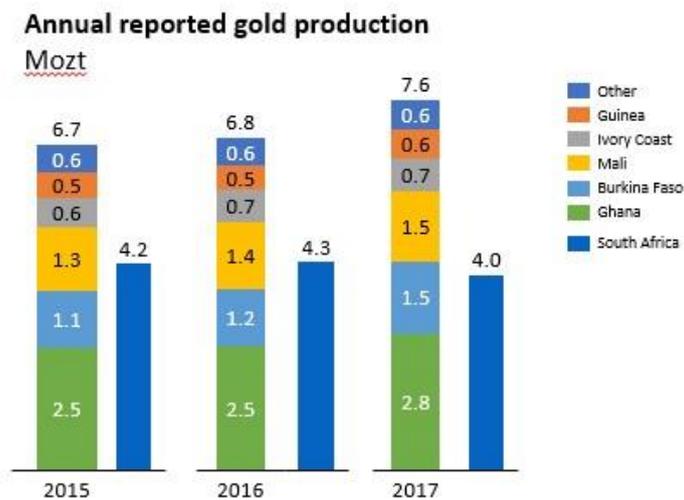
Circle of Flags in West Africa

West Africa has become the hub of African gold mining. Total production of gold from West Africa – that is Burkina Faso, Ghana, Guinea, Ivory Coast, Mali and emerging countries gold producing countries such as Senegal and Sierra Leone – overtook South Africa’s gold production in 2011. *Source: Wood Mackenzie, 2011.* Already in 2010, the GFMS World Gold Report projected West Africa as the growth region of world gold production. While world gold mine production has been declining, West African gold production has been growing. In 2018, Ghana’s gold production alone surpassed that of South Africa.



Source: Mining Intelligence

The above image shows West Africa's mining development pipeline: Number of mining/explorations projects at different stages of development. Moving down the pipeline from operating mines to exploration projects, the number of gold assets increases, with 61 assets (33% of all assets, regardless of commodity) in the production or construction stages, 24 assets, or 45% of all projects undergoing economic assessment studies, and a whopping 367 assets in the exploration phase. 74% of all exploration projects are focused on gold. This focus on gold in the exploration stage indicates that the importance of gold in West Africa's mining sector will only increase in the future, as new projects will enter the production phase.



Gold production: South Africa vs. West Africa, Mozt. Source: Mining Intelligence

This is based on listed companies' reports; artisanal miners, small scale miners and non-reporting companies are excluded. With South Africa's gold mining sector struggling with increased production costs at underground mines, socio-political turmoil and regulatory headwinds, West Africa is quickly becoming the continent's main gold mining hub.

The first documented gold production in Nigeria started in 1913 and peaked before the Second World War. The British diverted mineral funding into Tin and Columbite that were considered more useful for a war economy. Nigerian gold production never recovered after that. Currently, over 500,000 households (2-4 million people) depend directly or indirectly on artisanal mining for their sustenance. While the present minimum wage in Nigeria is thirty thousand naira (N30 000.00) per month, five thousand naira (N5,000.00, equivalent in US\$14 at 28/9/2019) passes through the hands of the average Nigerian artisanal miner daily, yet little remains to build a better life.



Highway going towards Aso Rock, Abuja Nigeria

Based on the available data, NEITI estimates show that the amount of gold smuggled out of Nigeria is over 99%. In addition, its 2010 Solid Minerals report does not indicate any company paying more than N5m royalty for gold that year. Further, in 2015, the Ministry of Mines and Steel Development only documented royalty payment on only 2.8kg of gold. In 2013, the Permanent Secretary for Ministry of Mines & Steel Development publicly disclosed that the country lost \$50bn from 2011-2012 due to illegal mining and exportation of unprocessed gold.

In 2016, Minister of Mines and Steel Development estimated that about 100kg of gold is illegally mined daily in Nigeria and the country loses \$1.54bn annually from illegal mining activities. Presently, Nigeria has one gold project by a TSX listed company with proven reserves of at least 800,000 ounces of gold.

The thriving underground gold market fuelled by money laundering and the existing monetary policy make local Nigerian gold Dore the most expensive in the West African region. Our research and

relationship with the gold traders in Nigeria indicate that about 2 tons of gold is smuggled into Nigeria each month.

For Nigeria, the dynamics of these issues are especially compounded by tightened foreign currency policies by the Central Bank of Nigeria (CBN). Gold has now also become the means to bypass such policies. Furthermore, research indicates that successive attempts to curb demand for gold have proven ineffective. Restrictive import policies have had a limited effect on demand. Instead, they have led to increased smuggling, making it more difficult to address and linked more to an “ underground” economy.

In most of the gold producing countries in the region, it is common for gold merchants to use gold to circumvent trade laws and exchange foreign currency abroad. This currency is used to purchase their foreign imported goods and thus reduce custom taxes. Fiscal environments and regulatory procedures that are not favourable for channelling artisanal ores to legal markets remain the biggest obstacles to gold SME mining sector development in the region. Extensive bureaucratic procedures for exports discourage legal buyers. There are high royalty fees incurred by miners despite their low profit margins and artisanal miners are dependent on their informal market chains since there are no competitive offers from formal traders or access to formal finance.

Catalysing solutions: an integrated gold economy - the refinery opportunity

Gold ultimately is smuggled to a refinery before its final destination. As of 2017, most of West Africa’s gold was smuggled into Dubai due to their duty free policies for importation of gold Dore. Effective 2018, the UAE’s revised policy on gold now includes tariffs on imported gold Dore. West African smuggled gold is presently renegotiating new routes including Singapore, India (tbc). The region of West Africa has only one other 99.99% refinery, in Mali.

Up until we participated in the March 2018 Economic Recovery and Growth Plan (ERGP) Focus Lab intervention, there was neither a refinery permit category (from the Ministry of Mines and Steel Development) nor a National Gold Policy.

Kian Smith put forward:

- I. A National Gold Purchase Scheme.
- II. A request for Gold Refinery Permit.
- III. A proposal for a National Gold Policy

With the support of the Vice President and the Central Steering Committee inclusive of the Central Bank Governor, Ministers of Finance, Budget & National Planning, Mines &

Steel Development and Industry Trade & Investment. The company's business plans were vetted and championed and have resulted in:

- I. Our receiving the first gold refinery license in Nigeria.
- II. Commencement of the draft of the national gold policy by an inter-ministerial committee.
- III. Resolving the mechanics of the Central Bank being the last resort buyer of refined gold from Nigeria.

The establishment of a gold refinery as part of developing the gold economy of Nigeria will be an intervention in a critical sector that will promote economic growth, promote non-oil export, create employment and eliminate revenue and data leakages for the country. The development of the gold sub-sector in West and Sub-Saharan African with Nigeria as the hub, will also create thriving market opportunities for Nigeria becoming an internationally recognized gold market. A crucial first step, however, was to understand the extent to which the Nigerian gold value chain required development, structure and formalisation.



Kian Smith during a Due Dilligence visit to an Artisanal Mine

3. Transformation of the ASGM sector

Unlike countries such as Ghana and Burkina Faso, Nigeria does not have a well-developed large-scale mining sector, and the majority of gold mining in the country is carried out by artisanal and small-scale miners. Artisanal mining activities in Nigeria are almost by definition informal – that is, operating outside current laws and regulations. While the current mining law and regulations do address artisanal and small-mining activities – mainly by focusing on the provision of extension services – they do not provide meaningful incentives and assistance for formalizing miners. For example, the requirement that artisanal miners form cooperatives in order to receive any technical assistance from the Ministry of Mines and Steel Development (MMSD) is a substantial obstacle for most miners given the migratory nature of the job and means that most will continue to operate informally. It also means that these miners, in practice, are unable to seek a small-scale mining license -- the only license available to them under the mining law. While the intent of the Government is to provide extension services to mining cooperatives, this has not yet translated to effective large scale outreach on mine sites.

The Kian Smith Gold Sourcing Programme (GSP)

Our approach, therefore, has been holistic with a view to empower and include each stakeholder who is both directly and indirectly involved and impacted by gold sector activities. In our view, ASGM encompasses not just the licensed and unlicensed miners, but also processors, assayers, agents, diggers, labourers and dealers all involved in the value chain of Artisanal Small Scale Gold Mining (ASGM). The value chain has a strong symbiotic ecosystem that needs to be formalized and strengthened without having stakeholders being dis-enfranchised.

ASGM operators as SME's to foster financial inclusion

The Kian Smith Gold Sourcing Programme has at the heart of its strategy the empowering of ASGM operators to develop as small businesses and provide them with incentives to encourage their working within a legal framework. Once formally registered as an SME, we provide the operators with legal access to sourcing gold and therefore better market options. We provide access to finance by guaranteeing suppliers and we provide access to savings programmes for operators. In summary, our main goals are legalizing gold production, creating jobs, empowerment and financial inclusion.

Firstly, we identified and registered the operators as SME's and ensure they received government recognised identity documents.

As of the 8 August 2019, Kian Smith has recorded 417 confirmed suppliers**

**To access the rest of this document
Please review the Table of Contents and contact Kian Smith
Trade & Co at abdool.kadeer@kiansmithtradeco.com for
chapters and content of interest**

KSMITH-GSP

Nigeria Update



200+
New business registrations



400+
Bank accounts opened



1500+
ASGM operators registered on our established ZOKIA traceability system



190+
Operators with completed KYC and Due Diligence



7
Title (concession) holders agreements obtained



400+
Registered operators



