

PanAfGeo WP3

**WORKSHOP ON ASM IN GHANA AND THE ROLE OF
GGSA**

CITY ESCAPE HOTEL,AIRPORT.ACCRA

**MODULE 14:FINANCING –BUSINESS PLANNING FOR ASM
OPERATORS**



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OUTLINE OF PRESENTATION

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- 2. KEY CHALLENGES OF ASM**
- 3. FINANCING ASM BUSINESS**
- 4. FORMS OF BUSINESS FOR ASM**
- 5. AN ASM BUSINESS PLAN**
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- 7. COSTING AND BUYING FOR AN ASM**
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CONTRIBUTION BY ASM TO THE ECONOMY

It plays a key role in the development of the Country by:

- contributing to income and employment generation and
- development in the rural areas.
- ASM continues to generate employment for estimated number of over one million (1,000,000) people and substantial revenue for Ghana during the year, 2015(Minerals Commission, 2015 Annual Report).

■ Comparative Production: Large vs Small Scale 2015



year	Large Scale Production-oz	ASM Production-oz	Total Production-oz Ghana	% of Small to Total
2016	2,585,103	1,656,099	4,241,202	60.95
2015	2,592,564	1,031,176	3,623,740	28.45

Source: Minerals Commission 2015 Annual Report and 2016 Statistical Report.³



KEY CHALLENGES OF ASM

- high operating cost,
- difficulty in accessing credit facility from various financial institutions,
- under-capitalization,
- lack of access to relevant information,
- lack of skilled human resource and technology.

Minerals Commission 2015 Annual Report, highlighted **lack of enough funds** to undertake exploration and mining operation as one of the key challenges faced by the ASM.



FINANCING ASM BUSINESS

- Financing ASM operators will give them the capacity to acquire equipment, hire skilled labour and technologies to enhance the operations, increase production to continually generate substantial revenue and employment to reduce poverty in Ghana.





FINANCING OPTIONS FOR AN ASM BUSINESS

- The two main sources of financing available to ASM businesses are short-term finance and long-term finance.

Short-Term Finance

Short-term finance refers to borrowing money to finance business operations for a period up to or less than one year to meet recurrent expenditure, i.e. day-to-day operational activities, and comprise the following sources:

- **Bank Overdraft:** A short-term loan granted by banks to clients to withdraw money above an agreed current account balance to supplement the working capital short fall. A bank overdraft is flexible, cheap and the risk is less compared to long-term loan and the interests are tax deductible.



FINANCING OPTIONS FOR AN ASM BUSINESS CONT...

- **Short-Term Loans:** A loan from financial institutions and banks to businesses to meet their short-term financial obligations, e.g. to finance recurrent expenditure.
- **Trade Credit:** A trade credit is an arrangement between a business and its suppliers where the suppliers grant or allow the business to settle payment for its purchases at a later stage, i.e. beyond the standard 30-day payment terms.
- **Commercial Paper:** Financial institutions issue a commercial paper to businesses as evidence of borrowing from the banks on a short-term basis. A commercial paper is usually only issued to large credit-worthy companies to finance their operations.



- **Factoring:** Factoring refers to obtaining funds by outsourcing the responsibility for collecting debt owed to an institution, i.e. a factoring company, in order to ensure that a strong cash-flow situation for the business.
- **Invoice Discounting:** Invoice discounting is an arrangement established to obtain finance against debtors by transferring an invoice to a finance house in exchange for immediate cash at a value lower than the invoice value.



- **Promissory Notes:** A promissory note is a legal document or note that stipulates the terms of a loan granted a business or inputs purchased by a business, which promises to make payment at a future date. This arrangement is usually with a bank, a financial institution, suppliers or manufacturers of equipment.
- **Counter Trade:** Counter trade involves trading goods instead of money, i.e. a counter transaction



Long-Term Finance

Long-term finance refers to borrowing money to finance business operations for a period more than one year, e.g to expand the business or buy new large assets.

- **Long-Term Bank Loan:** A loan from financial institutions and banks to businesses to meet their long-term financial obligations, e.g. to finance expansion of a business, acquire or invest in new buildings, buy large assets etc.



FINANCING OPTIONS FOR AN ASM BUSINESS

CONT....

- **Equity:** Equity refers to raising capital, i.e. money, by issuing new shares in the company or selling existing shares. By issuing new shares, i.e. increasing the number of shares, a company dilutes its shareholding, i.e. each share is worth less.
- **Franchising:** Franchising refers to allowing another party/business to sell business concept of the original business for a monthly or annual fee, e.g. McDonalds. The original business, i.e. the franchisor, lets the other party/business, i.e. the franchisee, to use its name, marketing material, and product and service concept in exchange for a monthly or annual fee.



FINANCING OPTIONS FOR AN ASM BUSINESS CONT....

- **Venture Capital:** Venture capital refers to obtaining outside funding for a business via external investors for either a share of business or an agreement payback scheme. In Ghana, Fidelity Investment Limited and Venture Capital Fund provide venture capital to both foreign and domestic businesses.
- **Leasing:** A lease is an agreement between two parties, the “lessor” (provider of finance) and the “lessee” (the user of the assets). The lessor owns the assets but agrees to allow the lessee to use it. The lessee makes payments (monthly, quarterly, semi-annually or annually) under the terms of lease to the lessor



FINANCING OPTIONS FOR AN ASM BUSINESS CONT...

- **Hire Purchase:** The hire purchase arrangement involves a finance house and the hirer. A supplier sells the assets to the finance house but delivers the assets to the hirer. The finance house demands an upfront payment, a deposit, from the hirer. The hirer pays off the assets in weekly or monthly instalments and assumes ownership of the assets upon full payment of the assets.
- **Retained Earnings:** Retained earnings refer to re-investing profit made in one year to the next year to finance new investments etc.



FINANCING OPTIONS FOR AN ASM BUSINESS CONT...

- **Government sources:** **Government** also provides funds to businesses in the form of cash grant, working capital, equipment and technical support. This assistance serves as a means to help develop the economy, generating employment and foreign exchange earnings. In Ghana, the Government set up the Business Assistance Fund (BAF), Export Development and Investment Fund (EDIF) and Microfinance and Small Loans Centre (MASLOC) to help indigenous and start-ups businesses. The Government, through Minerals Commission has also put in place some interventions and policies to help finance or assist the artisanal and small scale miners. An example is the establishment of a revolving fund for organized artisanal and small scale mining groups.



FORMS OF BUSINESS FOR ASM

- ASM must organize and structure their businesses in accordance with their business needs, finance and the legal entities or business form prescribed by the laws of Ghana. The type of business forms and legal entities must be registered by the Registrar General's Department and other regulatory bodies before they can operate in Ghana. These business entities have their own advantages and disadvantages in terms of business



FORMS OF BUSINESS FOR ASM cont....

- These business entities have their own advantages and disadvantages in terms of:
- Legal requirement and cost of registering the business
- Control and decision making,
- Finance and financial risks involved in operating the business
- Management and shareholding structure
- Taxation of profits
- Business missions and objectives



FORMS OF BUSINESS FOR ASM CONT..

- **Sole proprietorship**
- **Partnership**
- **Limited Company**
- **Cooperative**
- **Joint Venture**





A BUSINESS PLAN FOR ASM

- Is a formal written document describing the nature of business, its goals and plans for attaining the goals. A business plan provides the needed guidance and the directions for ASM to plan the business and to prevent any challenges that the business may envisage in the future.
- It must contain background information about the business, mission, vision, research information and data that clearly signals the business's strength that gives it an advantage over competitors.



COMPONENTS OF A BUSINESS PLAN

- **Executive Summary**

Concise and brief summary of the content of the plan

- **Background and mission**

Brief summary of ASM business history, current status, objectives and goal of the business.

- **Ownership**

The owners and the shareholding structure of the AMS business. The licencing agreements and the contributions of the owners.



COMPONENTS OF A BUSINESS PLAN CONT....

Organisation and management

- The management structure of the ASM, board of directors and competent and skilled personnel. The projected personnel requirement and professional advisers.

Product

- The product ASM business will be offering that customers or buyers are willing to pay for.

Marketing and sales

- How the business will be marketed and the sales strategy to adopt.



COMPONENTS OF A BUSINESS PLAN CONT....

Market analysis

- Conducting research about the industry, market and the competitors and expected sales. This will identify the market for the products, the potential customers, competitors and expected sales.

Operation

- Clear description of the ASM business, how the business will be conducted and how challenges will be controlled.

Funding request

- Estimation of funds needed to finance the ASM operation/business.

Financial data and projections

- Information on the current financial position and projections. That is the current balance sheet, cost control measures, break even analysis and future expected cost and profit.



COMPONENTS OF A BUSINESS PLAN CONT...

Financial data and projections

- Information on the current financial position and projections. That is the current balance sheet, cost control measures, break even analysis and future expected cost and profit.

Risk management

- The identification of all potential risks to the business, the sources, likely impact on the business, consequences and the mitigations measures to address the risk. The possible potential risks includes: delays in getting licences, insufficient resources for ASM operation, activities of illegal miners, operational accident, challenging working environment and social conflict, unstable commodity prices.



COMPONENTS OF A BUSINESS PLAN CONT...

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Appendix

- This section generally includes: cash flow projections, statement of current financial performance, sales and cost projections, break-even analysis, resumes, permits and photographs relating to ASM operations.



STEPS INVOLVED IN DEVELOPING A BUSINESS PLAN FOR AN ASM BUSINESS.

- **Research**
- **Purpose of the plan**
- **Business profile**
- **Documentation of Business**
- **Strategic marketing plan**
- **Interested parties/adaptability**



BENEFITS OF BUSINESS PLAN FOR ASM

- It forces business owners, management and employees to focus attention on the attainment of business goals and objectives
- It forces management to think objectively and realistically about the past and future assumptions.
- It makes communication, planning, objectives and strategies to stakeholders (bankers, employees, financiers) easier.
- It is a management tool that helps to allocate and use resources effectively and efficiently to meet goals, production and sales targets.
- It is a road map that provides direction for the running of businesses. The plan can help mitigate any challenges that may come up.



MARKETING AND SELLING

- **Marketing** is the identification of consumers or customer needs and wants and the development of products to satisfy these needs and wants. ASM business needs research and marketing skills to identify and develop mineral product to satisfy the actual and potential customers.



MARKETING AND SELLING

- **Market** is the customers, individuals, people, businesses and organizations who are actual or potential buyers of a product. The markets for ASM business products or minerals are the individuals and organisation that are willing to buy the minerals.



MARKET RESEARCH

In conducting market research, identification of customers or market, the ASM must consider the following:

- Talk to **Ghana Chamber of Mines** on how to identify a market and sell mineral products,
- Talk to **potential buyers** on mineral product they want to buy,
- The **Minerals Commission** to get information about prevailing international mineral product prices,
- **newspapers, private and government research organization** to know mineral product that sell best.



SELLING AND MARKETING MIX

Selling encompasses all activities and process of exchanging mineral products for cash. This selling process and activities involves the **marketing mix**(four Ps).

- **product,**
- **price,**
- **place (distribution)**
- **promotion**

ASM business should combine the marketing mix effectively before mineral products offered to the market could be successful.



MARKETING MIX



Product

- Is anything offered to a market for consumption or use by the businesses. This is the mineral product that is produced by the ASM business. The buyers want value for their money therefore the product should be of good quality. The mineral products are generally classified as good mineral product where:
 - ✓ Cassiterite concentrate contains at least 60% of tin
 - ✓ Gold produced has less than 15% impurity
 - ✓ Dimension of stones cut are of equals thickness, width and length



MARKETING MIX CONT....

Price

- Is the value placed on the product by the business. In the mining industry the price of the mineral product is usually based on the production and profit margin of the business. Therefore for ASM business to sustain the business, it should make reasonable returns to cover the funds invested in the business.



MARKETING MIX CONT.....



Place

- All activities and methods used to make the product available to the customer or consumer through distribution. ASM business must use the best method to distribute the mineral product to the customers and dealers. Mining businesses or ASM operators in brick making, sand mining and quarry usually sell their product directly at site. Some ASM businesses engage in limestone also distribute their product through designated trading centres and retail shops.³²



MARKETING MIX CONT....

Promotion

- This is persuasive communication directed at the customers or consumers for them to know the activities of the business, identify the product they offer, where to locate the products. The ASM business must make their mineral product known to existing and potential buyers. To plan and execute effective promotion, the ASM business must consider the following activities:
- Personal Selling.
- Advertising
- Public Relations/Publicity
- Sales Promotion



COSTING AND BUYING FOR ASM BUSINESS

- **Costing** is determining the cost of the product or service and comparing the cost of making the product with the sales revenue of the product ascertain the profit or loss made on the production of the product. ASM business must consider costing their operations in order to determine how much it cost to produce mineral product, for example tone of lime. The determination of production cost will tell the ASM business whether it has the required funds to run the mine operation to achieve the expected returns or profit.



COSTING AND BUYING FOR ASM BUSINES CONT....

The costs of mine operation which ASM business must know and understand include the following:

- Initial licensing fees, Taxes and royalties, Rent and Rates
- Equipment, tools and machinery & Maintenance of machinery
- Supplies and materials & Printing and stationery
- Salaries and wages
- Production and transport expenses & Insurance Premium
- Expenses on sale of the minerals
- Cost of processing minerals & machine depreciation and decommissioning and land reclamation



COSTING AND BUYING FOR ASM BUSINES CONT....

Costing mine operation will help the ASM business to achieve the following:

- Develop a good business plan
- Prepare budget to ensure availability of funds for the mines operation
- Determine profitability or loss of business operation
- Identify areas of ASM business where cost reductions and controls are required.



TYPES OF COSTS FOR ASM BUSINESS

- In the production of a product there are costs that must be incurred in order to bring the product into the acceptable condition and location. However, some of these cost are directly traceable to the product. These costs are also incurred in ASM mines operations hence the need to understand the elements of cost. Costs can be classified as direct cost or indirect cost.



TYPES OF COSTS FOR ASM BUSINESS CONT...

- **DIRECT COSTS**

These are cost that can be traced to a particular product or service. Direct costs can be specifically and identically traced to a particular mineral product or mineral operation. Examples of direct costs that can be exclusively traced to a particular mineral product in ASM business are:

- Equipment and machinery and used for mine operation
- Wages and salaries for workers engaged in digging, crushing hauling, processing rock
- Supplies, materials, water and chemicals used in processing the mineral product.
- Cost of component parts for machinery used for extraction and processing.



TYPES OF COSTS FOR ASM BUSINESS

CONT...

- **INDIRECT COSTS:**

These are costs that cannot be specifically and exclusively be traced to a particular product. Indirect cost also called overheads cost are incurred in the course of making a product which cannot be traced directly and in full to the product. These cost are incurred on the business as whole, production, administration, selling and distribution. Examples of indirect costs that cannot be exclusively traced to a particular mineral product in ASM business are:



TYPES OF COSTS FOR ASM BUSINESS CONT...

Examples of indirect:

- Cost of research and business plan development
- Rent and rate for the mine operation
- Insurance premium for the mine
- Salaries and wages for administrators
- Lease and licensing fees & Royalties and taxes
- Cost of fuel and lubricants
- Cost of meals for the for workers
- Stationery and telephone & Sanitation and cleaning
- Transportation of workers and supplies to and from the mine



BUYING FOR ASM BUSINESS

- In mine operation or ASM business, materials, items, equipment will be acquired initially before production starts while some items will be needed in the course of the business operation. These equipment and materials for the mine operation involves substantial financial outlay. Therefore the machinery materials must be acquired at the right time, right price, right quantity and right quality in order to reduce operational cost and achieve the expected returns or profits.





CONCLUSION & RECOMMENDATION

- ASM operators that are untrustworthy, misapply, misuse funds will hardly get funding because funders, banks, financing and microcredit institution and government will not offer funds and assistance to such businesses. Therefore ASM must manage and exercise control over their cash flows and cash resources in order to keep the business sufficiently liquid and the mine operation profitable. Cash is the most important asset for the existence of the business.
- ASM must keep up to date records and relevant documents for all receipts and payments for the mine operations. This will enable the ASM business prepare relevant financial statements.



**Thanks
for your Attention**

