

| Cobalt Credits

 Fair Cobalt Alliance
L'Alliance du Cobalt Equitable



The role of ASM in international supply chains

- DR Congo accounts for **80% of global cobalt production**.
- **An estimated 5-10%** of DRC's supply, or 10,000+ tonnes, originated from artisanal mines in 2021 (USGS, 2022), estimated to result in cobalt and copper metal of an estimated value in excess of **USD 500 million**.

- **150.000-250.000** women and men make a direct living from ASM.
- **40+ artisanal cobalt mine sites** actively source cobalt.
- **But hazardous working conditions** put these hard working men and women, and teenagers and children, at risk.

- **Responsible artisanal mining** can provide a dignified livelihood and serve as a driver for local development, a pillar of **responsible sourcing**.
- To enable **sector-wide responsible production practices**, decisive action and meaningful investment are required by all actors along the value chain.
- Investment into the professionalisation of the sector has not occurred, due to the sectors continued informality and 'unclear' legal status.

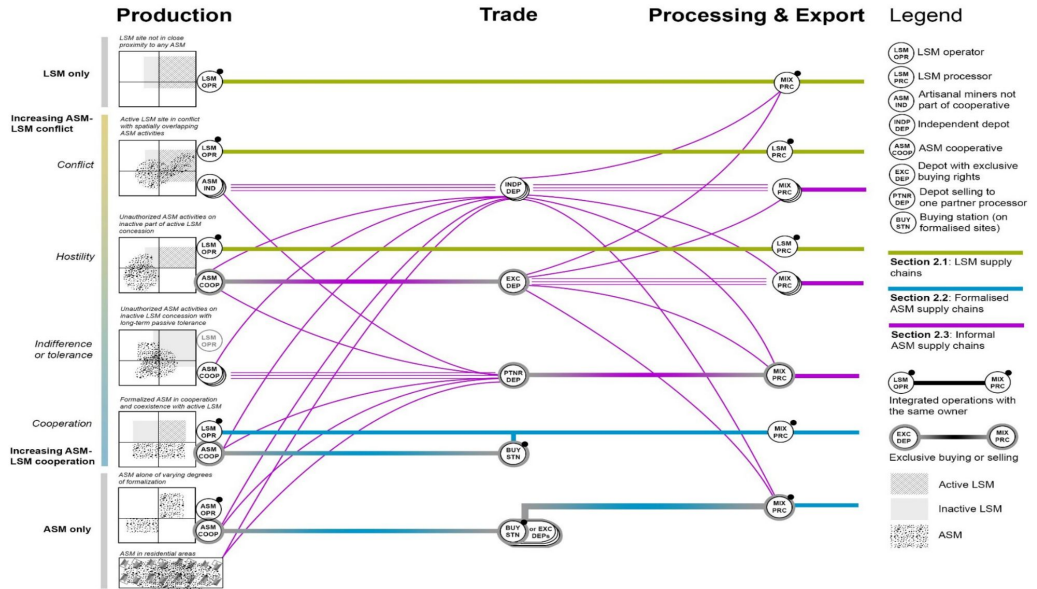


As the cobalt supply chain is complex, most end users can assume they have ASM material in their products

Simply said, it is currently impossible to formally source responsibly produced ASM cobalt as a downstream company

- No official market channels for ASM
- Highly complex, multi-tiered and often opaque supply chain from mine to final battery
- Supplier relationships are based on a multitude of factors: technology, pricing, quality
- Small-batch, segregated processing impractical and likely cost-prohibitive

Yet, companies should assume they have ASM material in their products unless they have systems in place to prove otherwise, as showcased by the OECD (2019).



Prepared by the OECD Secretariat based on primary research

Responsible Mineral Credits

Successful proof of concept through Cobalt Credit pilot

- In August 2023, the Responsible Mineral Credit (RMC) system was **launched** for the first time, with the Cobalt Credits in the Democratic Republic of the Congo (DRC).
- **Fairphone** launched the Fairphone 5, matching the cobalt used in their phones (+ Fairbuds and Fairphone 4) into Cobalt Credits - to be invested in local projects in Kolwezi.
- What's next:
 - The **Cobalt Credit** system will be expanded
 - The **Gold Credit** system planned for Q3 2024



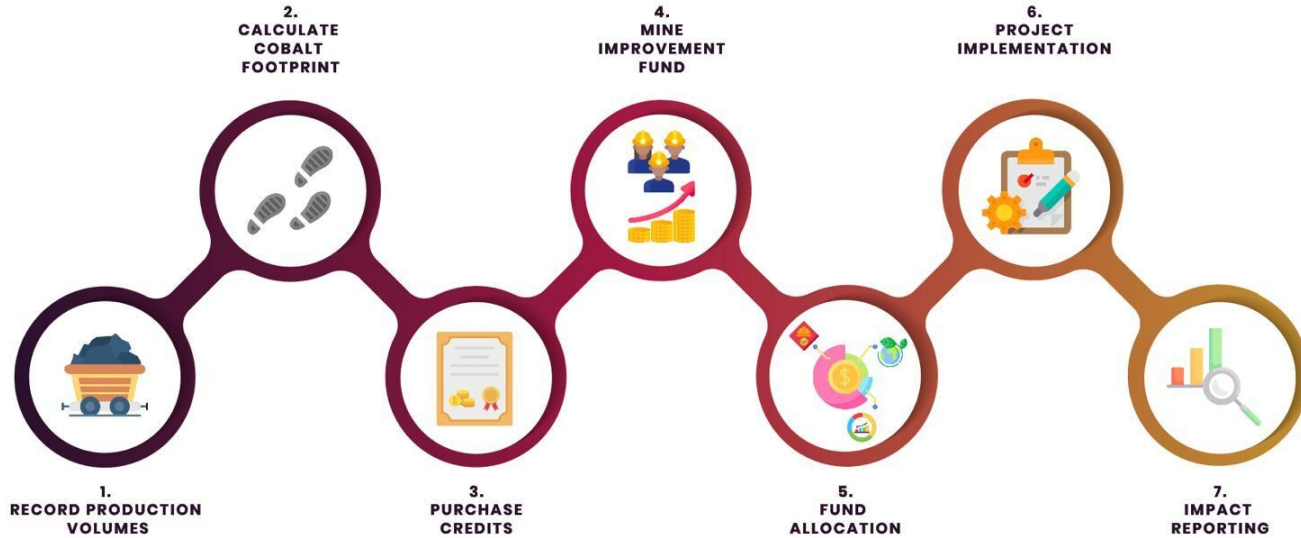
Fairphone 5
**Designed
for you.
Made fair.**

"We account for 100% of the cobalt used in the battery by buying cobalt credits, which support the improvement of working conditions for artisanal cobalt miners in the DRC."

Fairphone



Cobalt Credits



Responsible mineral credits allow cobalt users to address latent ASM-related risks upstream

The credit system enables companies to enable and incentivise progressive improvements of ASM cobalt sites according commensurate with their cobalt footprint, without requiring companies to forge physical sourcing relationships, thereby:

1. **Providing investment to enable progressive improvement of ASM operations,** commensurate with a company's cobalt use, i.e "material use footprint".
2. **Bringing responsible, improved ASM cobalt supply to the market:** responsible cobalt is not integrated into a specific supply chain, but brought to the market for anyone.
3. **Allowing downstream companies to account for their (non-traceable/ non-certified) cobalt use** and to address salient risks in the cobalt supply chain.
4. **Incentivising and enabling ASM cooperatives to improve ASM operations** with credits revenue earmarked for investments in jointly defined impact areas, thereby preparing for compliance with intl. Standards and, thus, formal trade.

Detached from the physical supply chain, the system maximises impact potential by minimising administrative costs (no need for segregation, traceability, etc).



The credit system consists of multiple components

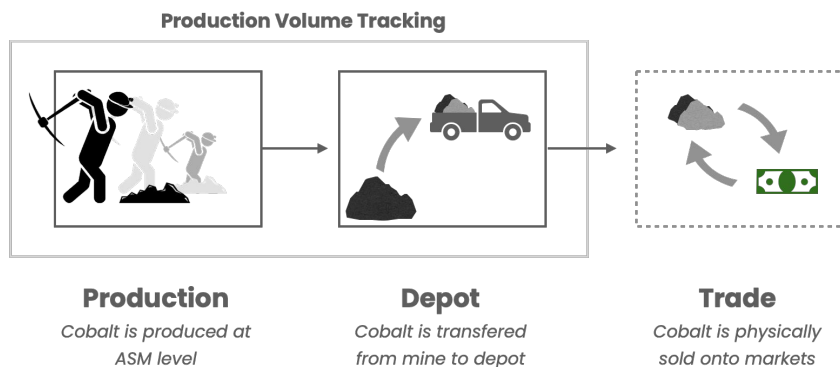
1. **Mine origin tracking** is done through verifiable production/sales data and material tracking at mine site until the material is traded off site.
2. **Minimum eligibility criteria** with performance indicators based on the ASM Cobalt Framework determines whether ASM cobalt miners can join the system.
3. **Credit impact investments** are made as ASM mines commit to progressive improvements and can select investments of credit revenues in predetermined ESG impact areas towards internationally recognised standard such as the RMI's ASM Cobalt Normative Framework (ACNF).
4. **Pricing of Credits** is calculated as a price per amount of cobalt used in downstream products.
5. **Claims and communications** are regulated through rules about verifiable and standardised claims by credit buyers.
6. **Financial Governance** of the credit fund is managed by the Impact Facility. Credit revenues are allocated to priorities selected by representatives of different worker segments active on the site
7. **Assurance & Verification** is ensured through detailed documentation and data management and 2nd, or 3rd party verification.



Credits are generated according to the AMPs production volume

Indicators for Production

- One cobalt credit will represent a tonnes of cobalt produced by the partner AMP.
- This is calculated by taking the average cobalt content (5%) of the ore produced and tracked by the AMP
- Production volumes are tracked at mine level from pit to transport to depot, to ensure the cobalt included in the credit system originates from the partner mine.
- Proof points: Export documents verified by Saemape, CEEC, and triangulated by cooperative data.



AMPs can become part of the credit system if they meet minimum eligibility criteria

Eligibility prerequisites are in line with the OECD due diligence guidance and the CRAFT code (modules 1-3):

- AMP operates legitimately (as per OECD: good faith efforts)
- AMP is not associated with OECD ANNEX II Risks requiring immediate disengagement
- Basic organisational governance and record keeping
- Commitment to transparency and regular ESG and production data sharing
- Commitment to gradual improvements

Currently, only mines that have a working relationship with the Fair Cobalt Alliance are part of the credit system, as they have demonstrated an active willingness to improve as well as meet minimum criteria.



The allocation of credit revenues will be decided upon by a Fund Allocation Committee, representative of different worker groups

Appropriate governance of revenues generated from credit sales is required*, including **ensuring a voice of the cooperative and other stakeholders in determining investment priorities**, within the framework given by the ESG indicators:

- A dedicated fund allocation committee (FAC) has been set up, comprising representatives of different worker segments including four women washers, three diggers, two Salizeurs, and two transporters
- The different groups articulate Mine Development Priorities and vote to determine priority projects
- The fund committee includes non voting members; members of the cooperative and of the FCA to oversee the process, as well as 1 member of Saemape to provide advice.
- The project design, development and implementation is based on bi-annual budgets and contains clearly defined objectives and impact KPIs
- The proposed interventions contribute to impact in pre-defined 'investment buckets' that gradually improve mine performance towards international recognised standards (see next slide)
- Quarterly committee meetings to track progress / receive financial reporting, guided by FCA staff, the cooperative and government authorities (SAEMAPE)

*The revenues from credit sales will be pooled into a fund, to be invested into improvements at the mine site and implementation oversight. The financial management of the fund will be done by TIF, channeling funding directly to improvement implementation.



Proposed investments contribute to ESG improvements to gradually meet internationally recognised standards



Investment Buckets



Good Governance

- Sub-Theme 1:
Legal Compliance & Anti-Corruption
- Sub-Theme 2:
Non-Discrimination & Representation
- Sub-Theme 3:
Financial Management



Safe & Dignified Working Conditions

- Sub-Theme 1:
Accidents & Disease Prevention
- Sub-Theme 2:
Access to Clean Water & Sanitary Facilities
- Sub-Theme 3:
Child & Forced Labour Mitigation & Remediation



Environmental Protection

- Sub theme 1:
Radiation & Pollution Management
- Sub theme 2:
Waste Management
- Sub theme 3:
Environmental Planning



Inclusive Economic Development

- Sub theme 1:
Fair compensation & Transparent Trading
- Sub theme 2:
Increased Value-Retention
- Sub theme 3:
Economic Resilience

The Fund Allocation Committee (FAC) is governed by a comprehensive set of internal rules

- **Purpose and Principles:** Sets governance for the Fund Allocation Committee (FAC) at Kamilombe Mine, promoting transparency, equity, and sustainability.
- **Core Values:** Highlights commitment to democracy, non-discrimination, gender equality, fairness, and respectful communication.
- **Structure and Operations:** Outlines committee composition, election, financial management, project initiation, and conflict management.
- **Mandate:** Focuses on mine needs identification, sustainable project design, equitable prioritization, and transparent execution coordination.
- **Guideline Adherence:** Emphasizes anti-corruption, bribery policies, and relevant guidelines.



The cobalt credits are priced per tonne

- **One credit represents** a tonne of cobalt produced at the minimum eligibility criteria
- **The price of a credit** consists of a premium and an admin fee. The premium is fully invested in improvements at the mine site in line with the ESG indicators. This administrative fee will cover the costs of operating the credit system, as well as legal and audit fees.
- **The Premium** is set at a fixed price of 5000 USD per credit/tonne, equalling about 10% of the average cobalt price over the previous 3 years.
- **The Admin Fee** is unrestricted financing for managing the CC scheme, rate of which is to be determined.
- **Buyers** of cobalt credits need to know how much cobalt they use in their product, in order to buy a (partially) equivalent amount of credits (cobalt footprint)*

*Example cobalt footprint calculations are available upon request



Downstream companies can claim their impact contribution

Claims consist as a minimum of the following elements:

- Company name
- Absolute articulation of number of credits purchased / money spent
- Relative articulation of credit-purchase compared to own cobalt footprint in a given timeframe
- List of ESG improvements (co-) financed by the credit purchase.

This could result in an example (pilot) claim such as:

“Company invested X amount of USD into improving ASM cobalt mining in the DRC, by purchasing X amount of cobalt credits, representing X% of the cobalt used in our product in the year X. The funds invested will enable improvements in XYZ (name ESG indicator headings), which will bring the mine site closer to fulfilling standards for responsible cobalt ASM.”



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And assurance is provided by different levels of validation

Impact and expenditures are validated by 2nd or 3rd party verification and assurance to assure the system is implemented correctly and that the claims made by credit buyers are accurate.

- Baseline **Impact** assessment: 2nd Party ESG data from M&E baseline and perception surveys (2nd party by FCA)
- Mid-term **production data** assessment (when credits are bought): While production data is continuously collected , an additional verification of production data will be done mid-term (2nd party by FCA)
- End of year **Impact and production assurance**: Third party verification of a) production data and b) ESG data
- **Verification of use of funds**: cooperative investment plan reporting and validation (2nd party by FCA), and overall yearly assurance/ audit on accounts (third party)
- **Verification of claims** by credit buyers: 2nd party verification & approval of claim by FCA and company 3rd party assurance (impact audit) once the CC sales revenue exceeds USD 500.000 per annum.



Governance Articles of the FAC

The internal rules are organised into the following articles:

Article I: Composition & Mandate of the Committee

- The committee, with 6-11 democratically elected voting members, including roles like Chair and Secretary, aims for equitable project management under principles of democracy, fairness, and inclusivity.

Article II: Election Process & Tenure of the Committee

- Committee members, elected by self-nomination and meeting specific criteria, serve one-year terms, except for the Chair's two-year term, with re-election ensuring continuity and ethical compliance.

Article III: Termination, Resignation & Vacancies

- FAC membership may end due to failure in duty, conduct violations, resignation, or a majority vote, with vacancies filled according to established selection criteria.

Article IV: Meetings & Cadence of the Committee

- The FAC meets every six weeks, with the Chair coordinating dates and the FCA handling venue logistics. Members receive advance notices and agendas, and participation compensation is provided.

Article V: Decision-Making Process of the Committee

- Committee decisions are made through majority votes by representatives, under quorum requirements and guided by the Code of Conduct and Conflict of Interest Policy.

Article VI: Transparency & Accountability

- The FAC, through the FCA, ensures openness through public reports, maintains audited financial records, engages with stakeholders for feedback, requires Col disclosures, and implements a grievance mechanism for community concerns.

Article VII: Financial Management

- Funds are managed by The Impact Facility (TIF) and spent according to FAC priorities, with full transparency on amounts transferred. The Committee's Treasury approves accounts, and the FCA provides quarterly budgets.

Article VIII: Project Origination, Design and Submission

- The FAC defines objectives, crafts proposals with details and costs, adheres to policies, and submits for approval within set timelines.

Article IX: Fund Allocation Criteria and Investment Priority Areas

- Projects must align with the investment buckets and allocating 30% of funds for women-centric initiatives. Projects are prioritized and vetted by TIF and CMDS, with adjustments made for approval based on predefined criteria.

Article X: Project Implementation & Execution

- Post-approval, projects are managed with input from the Fair Cobalt Alliance, the Committee, and a possibly formed Sub-Project Committee including members from FCA, CMDS, SAEMAPE, and group representatives for comprehensive monitoring and reporting.

Article XI: Project Monitoring & Reporting

- Emphasizes continuous integration of community feedback into projects, regular financial and impact reports by TIF and FCA, ongoing project monitoring against set indicators, and commitment to respectful communication.

Article XII: References to Policies

- The Committee and all members must sign and adhere to the FAC Code of Conduct and Conflict of Interest Policy.

Article XIII: Amendments and Review

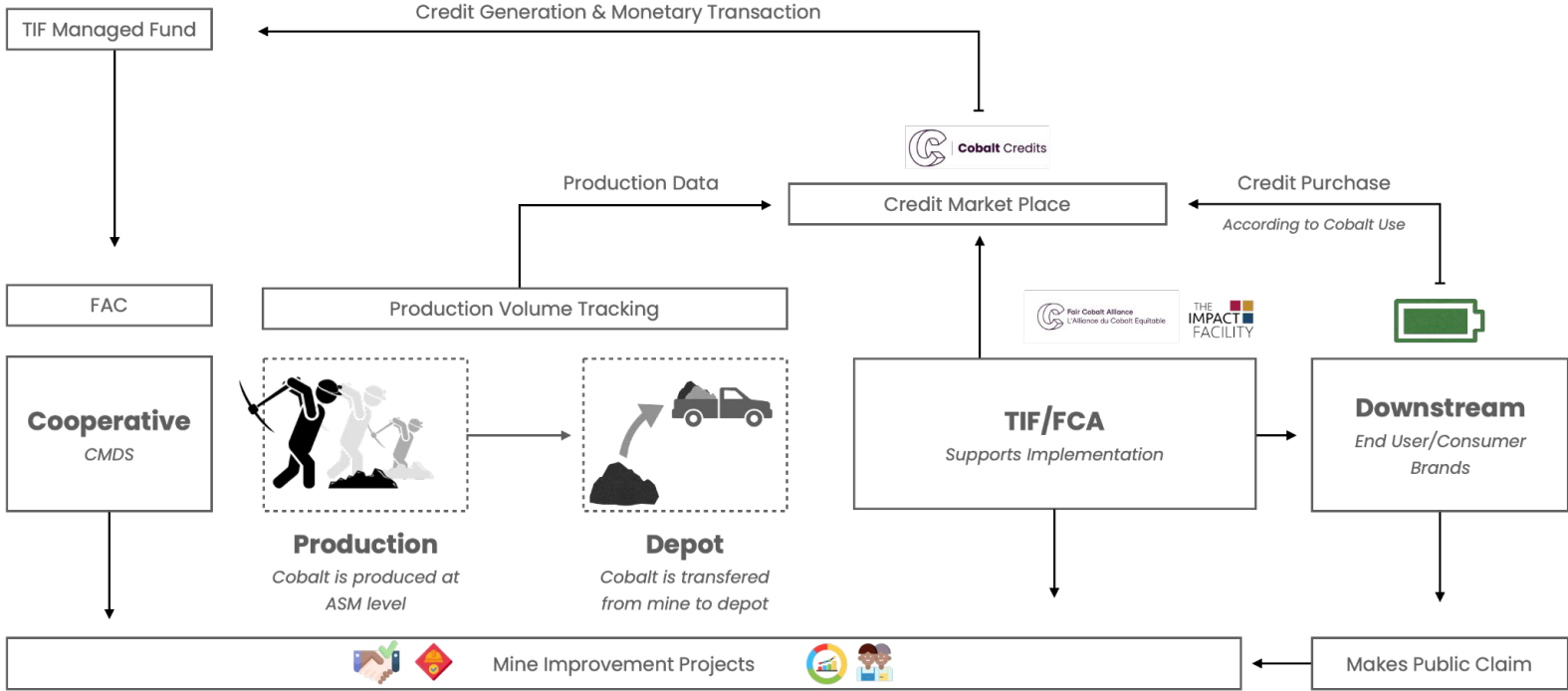
- Annual reviews and event-driven updates ensure the document's relevance and accuracy. Members can propose changes, requiring a majority vote for approval, with updates effective upon approval and communicated to all members.

Article XIV: Recordkeeping

- The FAC keeps detailed records of all governance document updates and discussions for historical reference and accountability.

Article XV: Effective Date

Flow-chart overview





Fair Cobalt Alliance

L'Alliance du Cobalt Equitable

Thank you.

Contact us at:

david.sturmes@faircobaltalliance.org

The Fair Cobalt Alliance is managed by The Impact Facility serving as its permanent Secretariat.

The Impact Facility, is a UK-registered charity; Charity Registration Number: 1181077, Registered office: Avening Park, West End, Tetbury, GL8 8NE.