The Cobalt Credit System
Pioneering responsible sourcing
The role of ASM in international supply chains

- DR Congo accounts for **70% of global cobalt production**.
- **An estimated 10-20%** of DRC’s supply, or 10,000+ tonnes, originated from artisanal mines in 2021 (CI, 2022). This represents an annual trade value in excess of **USD 1 billion**.
- ASM Cobalt is mixed at several tiers of the battery supply chain, thereby ending up in the majority of downstream battery chains (OECD, 2019).
- Cobalt demand is expected to **grow by 228% by 2050**, compared to 2022 (BloombergNEF, 2023).

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

Simply said, it is difficult to formally source ASM material 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 practically impossible

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).
The million dollar question: how can downstream companies positively impact mining communities?

1. There are currently **no official market channels** for artisanally produced cobalt
2. Highly complex, multi-tiered, and often opaque supply chains **from mine to final battery** with minimal leverage as individual actors
3. Supplier relationships are based on a multitude of factors: technology, pricing, quality
4. Small-batch, segregated processing is **practically impossible**
Responsible mineral credits allows downstream companies to contribute to positive impact upstream

The credit system enables companies to invest in progressive improvements of ASM cobalt sites according to their cobalt footprint, in the absence of sourcing responsibly produced cobalt directly, thereby:

1. **Providing investment to finance progressive improvement of ASM**, based on a downstream 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. **Allowing the ASM cooperative to have more ownership to define needed investments** within predefined impact areas and an incentive to increase volumes traded through the cooperative, thereby preparing the pathway for fairer trading practices and formal trade.

**While not interfering with existing physical supply chains** — therefore no additional costs are created and the funds spent directly benefits ASM.
The credit system consist 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 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 AMP.
- Proof points: Export documents verified by Saemape, CEEC, and triangulated by cooperative data.

Production Volume Tracking

- **Production**: Cobalt is produced at ASM level.
- **Depot**: Cobalt is transferred from mine to depot.
- **Trade**: Cobalt is physically sold onto markets.
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.
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) is developed, composed of representatives of different worker segments including women washers, diggers and 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

* In line with internationally recognised standards
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.

- **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.”
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)