

IMPLEMENTATION OF AUDIT & MONITORING OF ITSCI AND RISK ASSESSMENT REGARDING CONFLICT AND THE TIN, TANTALUM AND TUNGSTEN VALUE CHAIN

Inception Report

For the Attention of ITRI & T.I.C.



28th August 2011

This Inception Report has been prepared by Channel Research for ITRI on behalf of the iTSCi programme.

The material contained herein is confidential, except to project partners unless published by iTSCi.

Please address all correspondence to:

*Mrs Cecile Collin,
E-mail: collin@channelresearch.com
Tel: +32 2 633 6529
Fax: +32 2 633 3092*

Route des Marnières 45B, 1380 Ohain Belgium
Tel +32 2 633 65 29 Fax +32 2 633 30 92
www.channelresearch.com info@channelresearch.com
VAT No 864 560 703

TABLE OF CONTENTS

ACRONYMS	1
I. INTRODUCTION	2
II. PRESENTATION OF ITSCI	2
III. SCOPE OF THE WORK	4
IV. RISK ASSESSMENT AND AUDIT PRINCIPLES	5
V. KEY CHALLENGES	6
1. A DIVERSITY OF CONTEXTS IN THE GREAT LAKES	6
2. POLITICAL CONTEXT OF THE MINERALS EXTRACTION	7
3. CHALLENGES AT THE CONTEXTUAL LEVEL	8
4. CHALLENGES AT THE PROJECT LEVEL	10
VI. STEPS OF THE MISSION	11
VII. METHODOLOGICAL TOOLS	13
1. FORMAT FOR TRIANGULATION OF EVIDENCE	13
2. CHECKLIST & ANALYTICAL GRIDS	14
VIII. SPECIFIC METHODOLOGY FOR RISK ASSESSMENT	16
1. STAKEHOLDER ANALYSIS	16
2. CAPTURING PROJECT EFFECTS	17
3. CAPTURING CONTEXTUAL CHANGES IN RELATION TO THE CONFLICT	17
4. MINE RATING SYSTEM	18
5. MITIGATION AND FOLLOW UP	21
IX. DATA COLLECTION	22
1. DATA COLLECTION TOOLS	22
2. KEY INFORMANTS	25

ACRONYMS

BGR	<i>Bundesanstalt für Geowissenschaften und Rohstoffe –</i> Federal Institute for Geosciences and Natural Resources
CAR	Central African Resources
CRC	Convention on the Rights of the Child
CTC	Certified Trading Chain
DRC	Democratic Republic of Congo
EICC	Electronic Industry Citizenship Coalition
EITI	Extractive Industry Transparency Initiative
ETI	Eurotrade International Ltd
GESI	Global E Sustainability Initiative
GMC	Gatumba Mining Concession
ICGLR	International Conference of the Great Lakes Region
IFC	International Finance Corporation
iTSCi	ITRI's Tin Supply Chain Initiative
MPA	Metal Processing Association
MPC	Mining Processing Congo
MSA	Mineral Supply Africa
MSC	Malaysia Smelting Corporation
NRD	Natural Resources Development
NGO	Non Governmental Organisation
OCC	<i>Office Congolais de Contrôle –</i> Congolese Office of Control
OECD	Organisation for Economic Cooperation and Development
OGMR	<i>Office de la Géologie et des Mines du Rwanda -</i> Rwandan Geology and Mines Authority
RAM	Rwanda Advanced Metal
RAP	Rwanda Allied Partners
SAKIMA	<i>Société Aurifère du Kivu et de Maniema –</i> Gold Company of Kivu and Maniema
T.I.C.	Tantalum- Niobium International Study Centre
UN	United Nations
US	United States
WMP	Wolfram Mining and Processing Ltd

I. INTRODUCTION

This inception report follows the inception phase of the risk assessment and audit component of the Tin Supply Chain Initiative, iTSCi, currently being implemented in Rwanda and Katanga. Channel Research has been commissioned to do the initial development of risk assessment and audit method of iTSCi in the Great Lakes region as defined in the OECD guidance for responsible supply chain management of minerals from conflict affected and high risk areas, the OECD supplement on tin, tantalum and tungsten from conflict affected and high risk areas, the UN guidance on due diligence, and the iTSCi membership summary document.

This report was intended to be prepared prior to field missions in the DRC during September and October 2010 but this did not take place because of the suspension on minerals export announced by President Kabila mid September 2010. This report has been developed progressively following the developments of the different initiatives and of the normative context regarding minerals from the Great Lakes.

The inception phase consisted of meetings with ITRI & T.I.C. staff members and external stakeholders, notably some at ITRI's headquarters to explore the content and management of the tags and document database and registers. This included document reviews (international standards on due diligence, reports from NGO's and UN agencies on mining activities, iTSCi project documentation, CTC and ICGLR reports). Furthermore, Channel Research attended the Nairobi OECD/ICGLR conference in September 2010, the OGMR/ICGLR Kigali conference in March 2011, and the OECD Paris conference in May 2011 on the finalization of the OECD due diligence guidelines and conducted a field mission in Rwanda in December 2010 to collect baseline data on the structure of the Rwanda of mineral industry and study possible synergies between iTSCi and CTC audits. A pilot audit has been organized jointly in Rwanda in June 2011.

The aim of this report is to provide the following:

1. Presentation of the initial challenges
2. Final methodology & tools

II. PRESENTATION OF ITSCI

The ITRI Tin Supply Chain Initiative 'iTSCi' is a due diligence system aimed at inclusivity and encouraging improvement in a series of manageable and practical stages bearing in mind that the DRC and adjoining countries are developing economies in which standards can differ from those applied in more established states. This phased system for improved due diligence, governance and traceability includes the following steps:

- PHASE 1: implementing traceability from exporters to international traders and smelters by establishing harmonised document requirements for export

shipments including written declarations confirming the lack of involvement of illegal armed groups in the upstream supply chain.

- PHASE 2: developing and implementing a system to ensure mineral traceability from the mine site to the exporter through the tagging of minerals bags at the different steps of the process and registering data, to develop a chain of custody data and collate information on risks through an 'on-the-ground' assessment.
- PHASE 3: implementing basic performance standard measurement of social, health and safety and environmental factors at mine sites and to consider incentives and methods for improvements.

Phase 1 has been in operation since 1st July 2009, with smelters within the programme collecting all relevant export documents and declarations on each shipment made since that date. Independent audit of that documentation has been carried out by SGS covering the first year of operation. Phase 1 is self-funded by ITRI members and participants in iTSCi. It has led to an improved focus on the provenance of materials and awareness of all parties for the need for legal/formalised trading. It therefore supports Government and other local industry initiatives active in the DRC and adjoining countries.

ITRI is now implementing Phase 2 of the system, which will provide definitive information on the provenance of minerals. Due to the many challenges that exist in relation to implementation of traceability to remote and widespread mine sites the intention was to begin with a 6-month trial the system pilot project before rolling out to other areas later in 2010. Phase 2 had been successfully operating at Kalimbi mine in South Kivu from mid-June up until the mining suspension announced by President Kabila in mid-September 2010. Implementation at Bisie mine in North Kivu was also planned for September but both operations currently remain under suspension and the project is halted. The Kalimbi mine was chosen as a pilot site in order to promote co-operation between iTSCi and the BGR certification project, which should be able to provide expertise on Phase 3 related standards. Phase 2 has now been fully implemented in Rwanda between December 2010 and March 2011, and is being implemented progressively in Katanga. Expansion in the Kivus, and possibly Maniema, Uganda and Burundi, is planned for the end of 2011.

ITRI co-operates with the tantalum association (Tantalum Niobium International Study Centre, T.I.C.) in order to apply the system to tantalum containing minerals. The tungsten mineral wolfram is also included in the system in Rwanda.

The project in DRC is carried out with the assistance of officials from various Ministry of Mines services such as SAESSCAM and the Division of Mines as agreed in a Memorandum of Understanding between ITRI and the Ministry in Kinshasa. A similar agreement also exists between ITRI and the OGMR of Rwanda which started implementing the iTSCi system in several mine sites in order to cover all Rwandese 'conflict minerals' by April 2011. Traceability and tagging of minerals is now a requirement under the Rwandese law.

III. SCOPE OF THE WORK

The methodology described hereunder is designed to complete the objectives and respective tasks of both roles of independent risk assessor and auditor. These roles are complementary in the frame of due diligence advice where audit is understood to be a sub-component of risk assessment.

Risks are defined as political, social and security elements and changes in the local context, that may create fragilities and threaten the mineral supply chain. The risk verification role includes risk prevention, identification and mitigation as defined in the OECD guidance. Risks are essentially the intended or unintended consequences of the action of some mineral actors, and suppliers, which directly or indirectly affect the Great Lakes. These consequences occur either because minerals purchased are from mine or processing sites, or transport routes under the control of armed actors, or because some benefits generated from the sale of minerals go to armed groups.

The audit focuses on the performance and management of the iTSCi in the different locations where it takes place, which includes the tagging design, transportation and implementation at the mine site. Although some financial analysis will be undertaken, this audit focuses essentially on organisational and social issues in order to ensure compliance of iTSCi with the appropriate international and national regulations and guidance. The main reference guidelines will be the OECD guidance, the SEC requirements, the UN guidance on due diligence, and the ISO norms 19011 for quality and/or environmental management systems auditing. iTSCi's risk assessment and audit system aims to work in synergy with ICGLR norms, when the latter will be finalized and implemented. The audit is expected to be aligned as well on EICC GESI Conflict Free Smelter Programme and Audit requirements, with a focus on the upstream part of the supply chain.

This methodology is developed based on Rwanda and DRC examples, taking into account however that the mineral value chain and other key issues differ greatly in both countries. The risk assessment component of the DRC and Rwanda are closely intertwined as a large share of the Rwandese export comes from processing DRC minerals. The analyses will cover tin, tantalum and tungsten supply chains from the mine sites to the Congolese and Rwandese export companies. As DRC and Rwanda allows providing a spectrum of situation and contexts broad enough, this methodology could be used along with iTSCi further developments in other Great Lakes countries.

IV. RISK ASSESSMENT AND AUDIT PRINCIPLES

Independence & neutrality

Channel Research / the individuals constituting the audit team do not have any financial or other ties with ITRI, T.I.C. their members, or member of iTSCi, which could be construed as a conflict of interest. Risk assessment and audit will be undertaken as per Channel Research's code of conduct, in a neutral and objective manner towards ITRI, the mineral value chain actors and individuals involved in the process.

Channel Research does not hold any other contract with ITRI, T.I.C. their members, or member of iTSCi outside of the current project. Channel Research is contracted by ITRI and has no direct contractual linkages with any mining, trader or smelter company, which may present a conflict of interest in carrying out the two roles of risk assessor and auditor.

Channel Research undertakes between 40 and 60 assignments a year for a broad range of clients from private and public sector, and is thus not dependant on this assignment.

Transparency

The mission will take place in a transparent manner, keeping the contractor regularly updated of the progress made, as well as potential suggestions of changes, and constraints faced.

The findings of the audit and of the risk assessment will be disclosed according to iTSCi membership agreement rules, OECD and UN guidance and SEC requirements.

Accountability & Performance

The mission shall provide conclusions and recommendations based on reliable findings, set aside personal judgements of the experts, and according to the highest professional standards. The team composition covers the expected skills and experience to fulfil the objectives of the mission, and Channel Research will pay due attention to the methodological and technical developments related to projects in the region and sector.

Protection

The study shall not put at risk any of the individuals involved in the mission, whether they are contractors, interviewees, iTSCi members or researchers. For this reason, the team will preserve the anonymity of the sources and ensure that their contribution to the research will not represent any threat for their position out of the iTSCi programme or security for any reason whatsoever. Security concerns may limit the scope of the research, which will be assessed in collaboration with the contractor based on professional judgement of the team and recommendations of the relevant stakeholders.

V. KEY CHALLENGES

1. A diversity of contexts in the Great Lakes – short overview

Countries in the Great Lakes are concerned with conflict situation at different levels. DRC is the only country with a clear on-going conflict on its territory, and issues related to presence of state or non-state armed groups are likely to occur essentially there. Channel Research will use the definition of the OECD guidance of conflict affected and high-risk areas¹.

Rwanda is a post-conflict country and is related to the DRC conflict in different ways. Some rebels of Rwandese origin are present in the DRC and their demobilization, repatriation and reinsertion is supported by the United Nations, whose Disarmament, Demobilization, Repatriation, Reintegration and Resettlement programme (DDRRR) should still target around 4000 of them², which remain in the DRC. Rwanda had military operations in the DRC during the first and second Congo wars and took part in joint military operations in Eastern DRC in past years. Above all, some traders and miners in Rwanda have commercial interests in the DRC and collaborate closely with some DRC comptoirs, directly or through intermediaries.

Burundi is a post-conflict country where the agreement for the demobilization and reintegration has been signed off only in April 2009 by FNL (Forces Nationales de Liberation). Some fights were still occurring in 2007/2008 in the capital and opponents are still fighting in the Western part of the country. There is limited documented evidence of linkages between local armed groups and mineral exploitation. Burundi has some local natural resources, essentially gold and tantalum, and is also a transit route for DRC minerals to Dar El Salaam.

Uganda can be considered a high-risk area. An on-going civil war with the Lord Resistance Army in the Northern part of the country since the beginning of the 1980s. However the movement has been weakened and scattered across several bordering countries, Central African Republic, Sudan and the DRC. Uganda took part in the joint military operations in Eastern DRC and is also a transit route for minerals from the DRC or from Rwanda.

¹ “Conflict-affected and high-risk areas are identified by the presence of armed conflict, widespread violence or other risks of harm to people. Armed conflict may take a variety of forms, such as a conflict of international or non- international character, which may involve two or more states, or may consist of wars of liberation, or insurgencies, civil wars, etc. High-risk areas may include areas of political instability or repression, institutional weakness, insecurity, collapse of civil infrastructure and widespread violence. Such areas are often characterized by widespread human rights abuses and violations of national or international law.”

² Source : Rwanda Demobilization and Reintegration Commission.

2. Political context of the minerals extraction

In the Great Lakes, the corporate sector relies on natural resources located in a large majority in the highly unstable and volatile context of Eastern DRC. Several foreign and national military groups are still present in the Eastern DRC, although some elements have been reintegrated in the FARDC, with relative success. FDLR and CNDP militias, of Rwandese origin, as well as local rebel groups, are in constant reshaping, through partial demobilization, division and new alliances systems. Besides, the divisions between the various levels of state authority and compartmentalization of the army due to the lack of rule of law and weaknesses of the state, historical background and poor infrastructures create a structural instability underlined by the political and economic interest of some leaders. In addition, the unity of the Rwandese population is still fragile following the trauma of the 1994 genocide.

Minerals supply chains differ between the DRC and Rwanda. In the DRC, the mineral sector is composed essentially of artisanal mines, with different layers of traders selling then to *comptoirs*, with the supervision of SAESSCAM, and the mines ministry offices. In Rwanda, key actors are semi-industrial mining companies, which also do direct trading, several processing plants, most of them associated to these companies, artisanal miners, cooperatives, and thirteen registered external traders. OGMR had no mine field agents before implementation of iTSCi, but overall state capacity is very strong. Diversity and complexity of the status and relationships between the actors create a complicated framework with limited transparency, despite strong motivation from the key actors to implement iTSCi and ensure sustainability of the mineral value chain.

In DRC areas characterized by the absence of rule of law and armed groups, mineral proliferation and extraction provides high rewards at low risks, sustaining the risks of human rights abuses and violence. At the same time, mining activities provide better living conditions to hundreds of thousands of civilians, some of them being ex-combatants who have abandoned their weapons in light of possible gainful employment. In Rwanda, the linkages with conflict are much more indirect and the risks of abduction by armed groups are very limited. The main concern is the use of conflict minerals by the industry, which would be possible if they are smuggled or of uncertain origin.

In the end, restructuring and formalizing of the value chain is a necessity and the way to sustain positive outcomes of mineral extraction.

Large-scale international and national peace-building programmes since the beginning of the 21st century, notably the United Nations “MONUC/MONUSCO” interventions (1 billion USD budget a year), the regional MDRP, and the DRC and Rwandese National Programme of Disarmament, Demobilization and Reintegration, as well as the Amani programme (total budget of more than 300 million USD), have not been entirely successful. Political dialogues in some cases have generated perverse effects, such as a resurgence of armed groups following the Goma conference.

Peace will depend on the success of large-scale programmes implemented by

international organisations and the DRC government with which corporate initiatives should align.

iTSCi is a first step towards a more comprehensive due diligence approach in the Eastern DRC on the part of the corporate sector. Mining cannot contribute to a pacification of the region unless accompanied by relevant and efficient policies and programmes. Therefore, in order to properly assess the performance of iTSCi, and set up a monitoring system to prevent iTSCi members from being accused of financing armed groups, several issues must be taken into account.

3. Challenges at the contextual level

- *The involvement of military actors in the mining process takes many different forms³.* This ranges from direct military control of exploitation and trading activity, mines operated by brigades, control of part of the supply chain by individuals commanders, unofficial provision of security and protection by the FARDC, to mine operators and imposition of predatory systems on artisanal miners and intermediaries.
 - The audit methodology needs to take into account the different possible set-ups and have a range of indicators to capture them.

- *In some cases the conflict is of a more informal, low-level intensity and armed groups are continuously evolving. The potential conflict actors may not be easy to identify, in which case the extent to which they benefit from mineral exploitation will be difficult to assess.* Mostly the conflict involved relatively formalized armed groups, national military forces and rebel groups, such as the CNDP and FDLR, whose degree of militarisation may differ according to time and location. This also involved some community based self-defence militia (MaiMai for instance), whose degree of formalization & structure is volatile. Lack of a clear view on the conflict stakeholders also depends on:
 - The accuracy of the monitoring of the Disarmament Demobilisation and Reinsertion efforts. In certain cases an unclear rate of re-enrolment of some beneficiaries in rebel groups leads to some armed groups members now working as artisan miners or exploiting land in artisan mining areas.
 - Involvement of individuals in armed groups, by force in some cases, who do not carry weapons and are therefore less easy to identify and are not included in the DDR programme statistics.
 - Community-based self-defence reactions, with ad-hoc use of weapons, and inter-ethnic or inter-community characteristics of the conflict. In some cases whole villages may have fought amongst each other or against other villages on an ad-hoc basis.
 - Continuous creation of armed groups and misleading communication on the effectiveness of the different armed groups.
 - In formalized armed groups, there is always a military and political wing, which can be recognized as an official political party. However, in some

³ Joint Evaluation of Conflict Prevention and Peace Building Programme. Hypothesis 5, Regional Cooperation and Mining Sector. Channel Research.

cases, the latter collects resources for the former but is not clearly an armed structure.

- *Following the previous issue, neither the US conflict minerals bill nor any international standard provides a clear definition of the participants of a conflict that are not allowed to benefit from the minerals supply chain. OECD guidance specifies that this consists of non-state armed groups and state armed groups according to national regulations.*
 - The audit and monitoring will consider as conflict actor any group or individuals who already committed human right abuses and violence or who represent a threat to peace and stability, and will focus on those suspected to be still involved in those practices, as well as individuals listed by the UN and targeted by UN and international sanctions. This identification will be based both on an inductive and deductive approach. First, by checking possible involvement of the individuals and groups already identified as conflict players in the mining activity. Secondly, by a constant monitoring and follow up process of human rights abuses and cases of violence in the areas where the mine operates and its surroundings, and research of possible linkages of these abuses with mining exploitation. The Advisory Panel and DRC based steering committees 'comites' of the iTSCi project will also contribute to this research. Mitigation measures will be suggested by prioritising the actors per level of involvement in the violence and abuses (cf chapter V, classification system of the mine sites).

- *Legal or illegal military involvement in the minerals extraction is a broader issue than mineral exploitation alone. It is in some cases an intermediate for political actors, and larger networks of individuals of various nationalities.* Thus, the traceability and certification of the minerals value chain will only allow the containment of visible demonstrations of broader informal power structures (as mentioned in some reports of the UN Group of Experts), which are likely to reappear in other circumstances and other forms. Any work of the extractive industry to mitigate abuses will not directly affect these networks of solidarity and interests, or the long-term causes of the conflict. In the due diligence frame of the corporate sector, financial traceability of the minerals revenue is key to understand the entire conflict dynamic.
 - Other channels will be investigated: financial (with a focus on illegal financial circuits as requested by iTSCi terms of reference), political, social, minerals' traceability or direct involvement of warring parties in the value chain will be investigated. Financial circuit will be investigated through interviews all along the supply chain, starting at mine sites and the communities, financial reconciliation of data provided by different sources and different stakeholders and with the state authorities.
 - Furthermore, the mission will make the link with any international organisations and governments for the participation of banks in a financial traceability programme.

4. Challenges at the project level

- *iTSCi can only address one conflict driver: mineral industry supporting armed groups by mineral resources trade, and depend on the other actors for the creation of a peace environment.* It can address the issue by controlling its value chain and assist in the mitigation of violence and human rights abuses, or by implementing relatively small social development projects, adjusted to the context. Its strongest leverage for action is ensuring that the minerals' origin can be reliably ascertained, and arbitrating between buying or not buying from certain areas / certain miners.
 - In the DRC, the risk assessment aims to establish a mapping of the main trends of control and ownership of the main pits of the pilot sites. This will be followed up by a close monitoring of the key actors involved in the mineral value chain by area. This system consists of a document review, creating a database of individuals and groups which are the object of international sanctions because of breaches of national and international law, as well as commanders of illegal armed groups whose possible involvement by area will be included in the report. This long-term process will benefit from the assistance of a network of local NGO's providing information. Other sources will include EUSEC, MONUC/MONUSCO, including J-MAC and the UN Group of Experts, DPKO, Interpol, UNICEF, UNODC, and local security forces (police, army, customs). This is expected to be an on going process starting in the inception phase.

- *The project depends on financial resources generated by the mineral exploitation, and also in continuing mineral exploitation, even at the beginning, and must be cost efficient.*
 - The audit team will ensure that financial constraints are included in the recommendations for improvements / follow up activities. The team will seek to model the cost of a comprehensive due diligence mechanism to prevent iTSCi members from risking their reputation and/or legal standing due to association with conflict financing, keeping in mind profitability requirements from corporate sector.
 - The study will also identify possible economies of scale and synergies with other programmes / action, according to the relevant areas, and subjects. This includes BGR, Promines, World Bank and UN programmes in mining areas, EUSEC's reform of the FARDC chain of payment, as well as interventions by local, national, and international NGOs.

- *Actual evidences of the possible involvement or contribution of miners and traders to the conflict will be difficult to collect.* iTSCi relies essentially on a variety of documents and checks on tags & documents provided by state institutions, in a context where interests and pressure is high. Corruption is of significance in the DRC, due to the underpayment of civil and military servants as well as the instability and then difficulties to implement state authority. Recent cases of fraudulent cassiterite exports intercepted by the Border Police prove fraudulent declarations on the weight, nature and origin of some of the transported goods.
 - The team will identify nodes where the system does not have several layers of triangulation and control, in order to ensure that responsibilities for key elements of the programme is shared and triangulated.
 - The audit and monitoring process will consider as evidence findings that

are triangulated using different data collection tools and different types of sources (see hereunder format for triangulation of evidence, and expected informants and data collection).

- In addition, consistency between the different documents will be randomly checked, taking into account criteria and indicators within and between the structures. A limitation to this could be the fact that administrative papers are disseminated across different offices, and different 3Ts clients throughout the world. They will however all be registered in the iTSCi database.

VI. STEPS OF THE MISSION

Risk assessment and audit will be undertaken in three main stages, and deliverables will be produced according to the suggestions of the OECD and UN guidance, but with a full audit and risk assessment initially delivered every 6 months, and not annually. Furthermore, on the spot checks as well as companies / mines risk assessment will take place at the beginning of the programme implementation and as well for follow up of the programme implementation. The audit will complement the CFS audit to provide a comprehensive overview of the supply chain of the smelters.

	Risk Assessment	Audit
1. BASELINE/ INCEPTION	Collection of baseline data, in partnership with PACT and the local steering 'comites'. Methodology review, set up scope and specific questions for the field mission	Collection of baseline data, Methodology review. Review of the documents & records submitted by iTSCi and industry, plus external reports mentioning the project.
Frequency	<i>Beginning of the project in new areas / starting date of the enforcement of the conflict minerals bill and upon any change of context</i>	<i>Beginning of the project / starting date of the enforcement of the conflict minerals bill and upon any change of context</i>
Documents from iTSCi secretariat & implementers	Baseline reports, initial risk assessment. Correspondence with authorities Reports from other sources	Programme management membership Policy documents Contract with implementers Project documents / Activities reports Database records
Documents from mineral industry	Cf list in the company risk assessment grid. This includes: Status Licenses & permits Organizational chart Details of facilities Corporate policies documents in respect to traceability, due diligence, HSE, corruption	Contracts with the main suppliers & different types of contract Production records for the past five years Financial account for the past five years Reports submitted to state authorities (tax, mine, labour, social security)
Documents from State authorities	List of owners of licenses and concession, details on involvement types of licenses, law in respect to mining, artisanal mining, labour, taxes	Details on licenses & permits Details on State shares in the different mining operators Record of production & exportation & reports submitted by mining operators Record of tax revenues
2. DESK REVIEW /MONITORING	Follow up on specific issues requiring further desk review, methodological evolution, context changes (as per UN, NGOs, State and international organizations publications)	Follow up of the progresses of due diligence and traceability and methodological evaluations
Frequency	<i>Monthly</i>	<i>Monthly</i>
Documents from iTSCi secretariat & implementers	Feedback from the field	Database and progresses reports on due diligence and traceability
3. FIELD ASSESSMENT	On site in depth analysis	
Frequency	<i>Semi-annual & depending on necessity</i>	<i>Semi-annual</i>
Data from iTSCi	<i>Cf risk assessment grid</i>	<i>Cf audit grid. This includes:</i>

secretariat & implementers		Tags record and database. Sources of errors in the database for identifying those requiring further investigation.
Data from mineral industry	<i>Cf risk assessment grid</i>	<i>Cf audit grid.</i> This includes Production, sales, personal and financial records from the past months Details of taxation payment
Data from State authorities	<i>Cf risk assessment grid</i>	<i>Cf audit grid.</i> This includes: Production and taxation records Reports of the customs and OGMR staff

Note: Although it would be more cost efficient to have documents requested from each actor available before undertaking the field assessments, some documents from the industry especially may be checked on sites during the visit.

VII. METHODOLOGICAL TOOLS

The following methodology defines the general framework for both risk assessment and auditing, treating auditing as a component of the risk assessment and the general due diligence of the mineral industry.

1. Format for triangulation of evidence

The number of sources required to ensure sufficient triangulation should be three as a minimum, depending on the effects of the evidence on the iTSCi. Severity of cases and related mitigation measures will be evaluated on a case by case basis by the iTSCi Steering Committee, based on the advice of the risk assessment and Advisory Panel.

The findings should be as detailed as possible in terms of location and individuals involved and will be organized according to each key issue.

This registry of evidence will be kept confidential and should be disclosed partially upon specific requests. Indeed, interviews will be conducted under the Chatham House Rules, meaning that no statement can be attributed to a specific organisation or individual. This allows the protection of the interviewees and ensures that they have the possibility to talk freely without the risk of compromising themselves. This makes particular sense considering the sensitivity of the issues raise and also the possible hierarchical relationships between audience reports and the informants.

Finding 1	Source 1	Data collection methods	Date, place
	Source 2	Data collection methods	Date, place
	Source 3	Data collection methods	Date, place

Example

Presence of FDLR checkpoint around North East of Bisie mine	Location / event	Direct observation	12.03.2011, Goma
	Community members	Semi guided Interview	05.10.2010, Walikale
	Information bulletin from a UN agency	Document review	11.10.2010,

Some ex CNDP directly exploit pits in area XXX of Bisie	Government officials	Semi guided Interview	
	Community members	Focus group	
	NGO workers	Semi guided Interview	

2. Checklist & analytical grids

1) Company Profile

As a basis and first screening for the risk assessment, a Company Profile will be established for each company entering the programme, including a recommendation on whether the company should enter the programme. This includes checking key documents, data, possible issues and their level of severity, as well as recommendation for action, indicators for improvement and risk mitigation measures. It will then also be used as a monitoring and tool for follow up. It will be filled in progressively, in some cases with the support of iTSCi implementers and iTSCi secretariat. Formats differ depending on the type of company and the country.

2) Risk assessment analytical framework

The indicators of the risk assessment refer directly to the analysis of the contextual changes and concerns in relation to conflict financing and/or supporting at a more general level, whereas the audit will focus on performance and compliance of the programme, and the iTSCi members with the OECD and UN guidance. The risk assessment is also part of the audit analytical framework. Indicators alert iTSCi management structure on the necessity to implement mitigation measures or to disengage. The indicators cover both indicators of immediate risks and indicators of possible risks related to changes of the structures, which will also be reported. The risk assessment will refer first and foremost to the OECD guidance.

2) Audit analytical grid

This covers the consistency of the traceability and the performance of the iTSCi project. The analytical grid comprises both audit indicators and monitoring indicators, which can be followed up by iTSCi implementers, with punctual cross-checking of the auditors.

The audit of the iTSCi project will take place as described in the iTSCi normative documents, at least once a year, and more regularly in the first months of the project. As one of the aims of the study is to set up a methodology of auditing, these grids may

be revised and discussed throughout the project, notably to ensure that indicators for related projects audit and international standards are integrated.

The list of data collection tools and sources of information is included in the methodology reference documents.

The audit is expected to take into account the auditing requirements of:

- EICC GESI Conflict Free Smelter audit
- Smelter & Due diligence audit mentioned in OECD guidance
- UN Due diligence guidelines
- ICGLR audit system

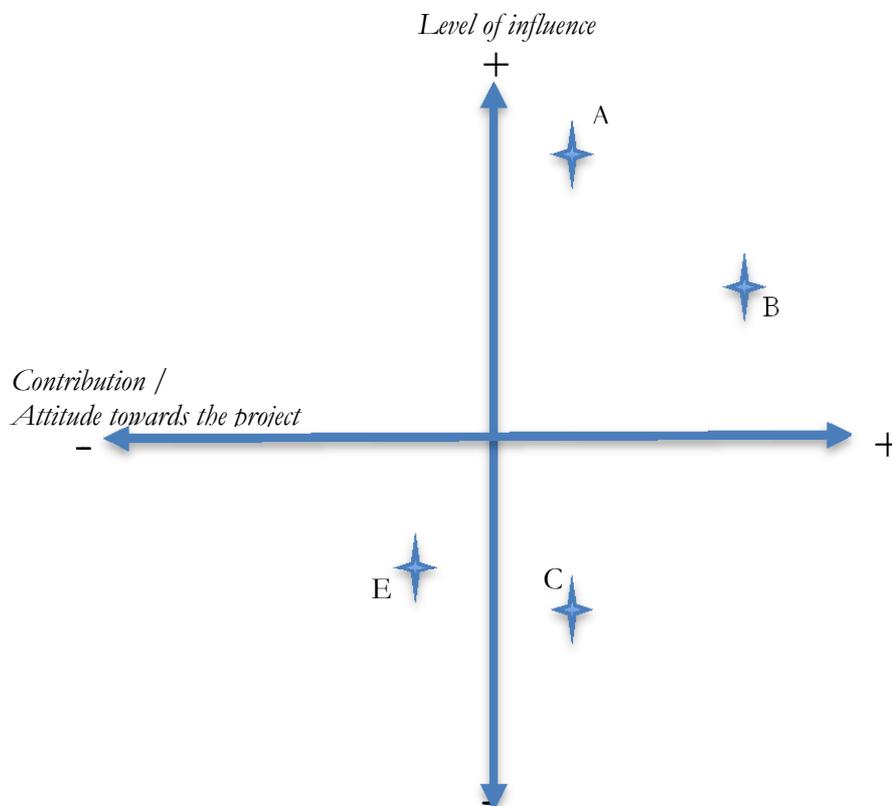
VIII. SPECIFIC METHODOLOGY FOR RISK ASSESSMENT

The following tasks will include the following elements. They are based on workshop and interviews in the fields, and will be completed through desk analysis at the preparation and reporting stage, as well as with traditional data collection methods mentioned in chapter IX. As a basis for the risk assessment, iTSCi implementers (PACT) monthly and incident reports will be analysed, Channel Research will make suggestions for mitigation measures and their implementation will be checked on the ground.

1. Stakeholder analysis

It may be relevant in some cases, with some community members, some civil society representatives or miners, to draw, at different steps of the process, a map of stakeholders involved. This diagram shows the level of influence of stakeholders on the context and assesses their attitude towards the iTSCi project and to minerals governance. The vertical axis represents the level of general influence/power of the stakeholder on the situation. The horizontal axis represents the degree of contribution to the project (from negative/non active to positive). This workshop should take place in small groups of similar people in order to ensure that sensitive data can be captured.

The mapping can be represented as follow:



For instance in the diagram here above, A would be a stakeholder who has a strong power over the project and the environment and is relatively supportive of it.

2. Capturing project effects

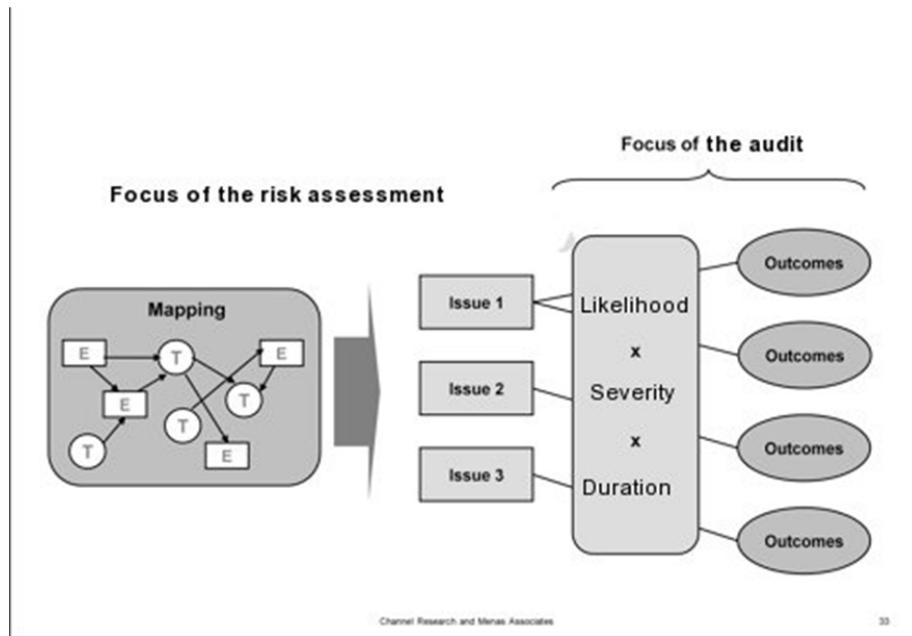
Regarding effects of the project, Channel Research proposes to take into account the different levels of effects and to capture the different stakeholders, in order to capture positive changes, which the iTSCi project contributed to, as well as possible unintended and negative effects. This will then allow building on positive dynamics created and mitigating negative consequences.

3. Capturing contextual changes in relation to the conflict

Effects of the project in relation to the conflict actors and conflict structures are not likely to be visible, although they should be taken into account. Besides, perception of the contribution to conflict is likely to vary between the different stakeholders. Therefore, the team would like to suggest that a **workshop of participatory situation mapping** is undertaken at key mine sites. The idea is to get a picture of the understanding by a selected group of actors of the conflict and the value chain, as well as to gather baseline data on the conflict situation in the area. This workshop is a tool developed by Channel Research to draw a chronological map of key events and trends and their linkages, by confronting different points of view. The purpose of this workshop is to identify the key conflict drivers, which would be the nodes on the map, as well as their accelerators. The audience is composed of different types of actors, taking into account that attendants need to be able to talk freely. This could be repeated on several occasions throughout the project cycle to capture changes in the social and political context; and their possible relations with the project or the mineral industry stakeholders.

The objective is to identify the Events (in the example hereunder in squares) and Trends (here in circles), and their interrelations. Arrows do not represent cause / effect relationships but contribution of one object to the other. Positive and negative contributions are differentiated.

Hence, the objects with more arrows are identified as nodes of the conflict and ranked according to the number of arrows. Based on the other qualitative and quantitative assessments, they can be assessed according to the severity, occurrence, duration in relation to the mineral value chain, which leads to formulation of recommendations of mitigation measures.



4. Mine rating system

The risk assessment team will look first at indicators for which the companies are legally liable in view of the Dodd Frank Act, as interpreted through the SEC rules, starting with the issues likely to represent the bigger risk for the supply chain. The relationships of the mineral exploitation with these indicators will be also taken into consideration more specifically. The first indicators of risks will then essentially be the presence of non-state armed actors, the level of violence and human rights abuses. However, in conflict areas, the linkages between mineral exploitation and armed groups takes place at different levels, especially if financial benefits of the extraction are recycled partially in the local economy, and then among some local communities, in which some armed groups are located. The linkages between mineral extraction and conflict can then be very indirect and then does not represent the same level of risks.

In order to concentrate action and prevention on the most immediate priorities, which would be related to violence and human rights abuses, risk assessment will be based on a classification of the mine sites elaborated by PACT (iTSCi implementers) with collaboration of iTSCi secretariat and Channel Research. In order to ensure coherence and synergies between the different approaches of MONUSCO, ICGLR and OECD notably, and along with the implementation and development of the system, the grid may be revised.

Industrials / traders will be assessed in the same way as the mines they are buying from.

iTSCi INCIDENT CATEGORY CHART (Working draft 12.08.11) as drafted by PACT Congo ⁴				
Level	Incidents relating to the iTSCi tagging system	Incidents relating to corrupt behavior	Incidents relating to non-state armed groups and state security services	Incidents relating to human rights or other abuses
Level 1	<ul style="list-style-type: none"> iTSCi team members are threatened or attacked 		<ul style="list-style-type: none"> The presence of, or the occurrence of any incident which involves a non-state armed group, or any person suspected to be linked to a non- state armed group, at/near an iTSCi mine or trade route; The FARDC attack people or become installed at/near an iTSCi mine or trade route 	<ul style="list-style-type: none"> People are reported to be attacked, tortured or subjected to degrading treatment at/near an iTSCi mine or trade route; People are reported to be raped or sexually abused at/near an iTSCi mine or trade route; People are reported to be forced or obliged to work for the military, police, state officials, traditional authorities, or others Children under the age of 18 are reported to be working as miners or prostitutes in iTSCi mines⁵
Level 2	<ul style="list-style-type: none"> Tags or log books go missing (stolen or lost) or are deliberately destroyed; Tags are reportedly offered for sale by traders or others for minerals outside the system; Minerals from an unapproved source is suspected of, or proven to be, entering the iTSCi 		<ul style="list-style-type: none"> The FARDC are seen or reported to be present at/near an iTSCi mine; iTSCi tagged material is illegally taxed or taken by the police or FARDC at the mine, at road blocks, or in depots 	<ul style="list-style-type: none"> Children under the age of 15 are reported to be working in iTSCi in heavy labor ⁶; Minerals are reported to be entering the iTSCi system from a National Park or Protected Area
Level 3	<ul style="list-style-type: none"> Tags or log books are 	<ul style="list-style-type: none"> State agents are reported to be 		<ul style="list-style-type: none"> Cave-ins or other accidents occur in

⁴ This table provides key examples of incidents. However incidents are not limited to those described here. This table will be updated periodically based on experience.

⁵ This is defined as:

- Worst Forms of Child Labor: Children under the age of 18 are working directly in heavy mining activities such as tunneling, or working as prostitutes
- Children under the age of 15 are working in the mining area or are carrying out heavy labor associated with mining such as transporting minerals;

⁶ See above

	<p>accidentally damaged;</p> <ul style="list-style-type: none"> • Errors and/or inconsistencies are discovered in tag allocation or log books; • State agents are failing or refusing to cooperate with the iTSCi system; • Significant changes in production or trade levels occur at a mine or depot 	<p>charging money for tags or at iTSCi mines;</p> <ul style="list-style-type: none"> • State agents, traditional authorities, mine owners, traders, or others demand money or other benefits from iTSCi staff; • Evidence of non-payment of formal taxes or unofficial payment to government agents; • iTSCi team members are bribed or coerced by state agents, mine owners, traders, security forces or any others; • An iTSCi member organization is allegedly engaged in corrupt behavior related to iTSCi 		<p>iTSCi mines resulting in injuries or deaths</p>
--	---	--	--	--

5. Mitigation and follow up

Following the risk analysis, Channel Research will draft a risk mitigation plan for the overall issues and will support companies in drafting their specific risk mitigation plans. Risk mitigation is included in the Macro Risk Assessment grid, as well as in the Company Risk Assessment grid.

Mitigation measures may not lead to any changes, and then the audit or the company has to recommend/decide to disengage. In that case, this will be justified also by analyzing the impact of the withdrawal with the different actors concerned (UN agencies, local authorities, local communities especially), in relation to the risk of conflict. This will be done through consultation with the local steering committees, participatory conflict mapping in the communities, interviews with local stakeholder and political/security analysts. This would ensure that decisions are carefully weighted and do not lead to effects worst than the existing situation, although the requirements of the buyers in the supply chain will have to take final precedence.

For all the locations concerned by the iTSCi, regular meetings are held between the operators involved in the mining activities, mine site operators, iTSCi staff, and UN agencies / NGOs. The idea is to promote some specific activities in the mine sites, notably artisanal mining as a livelihood, sensitization on child labour, local governance, etc.

IX. DATA COLLECTION

1. Data collection tools

As part of the triangulation approach, the team will use several tools to collect the data. It is expected that the data will be of qualitative and quantitative nature. Quantitative analysis will include statistical analysis, financial analysis and outputs figures, reconciliation and consolidation.

Literature review:

The team will analyze the different appropriate project documents, the complementary initiatives and the last reports related with the specific context of the Great Lakes.

Key documents:

Policy documents (Rwanda, DRC, US and so on...)
 International and national regulations (Rwanda and DRC mining code, Dodd Frank Act)
 SEC requirements
 Risk assessment, audit & due diligence guidance (OECD, UN, EICC GESI Conflict Free Smelter audit, ICGLR, IFC, ISO norms)
 IFC standards, Ecuador Principles, EITI reports
 Reports to EICC
 Reports on similar initiatives of minerals traceability (BGR CTC, Fair Trade Association, Kimberley process notably)
 Reports and research papers on Eastern DRC and Rwanda (politics, social and economics), (reports from NGOs, research institutes, consultancies companies).

Company profile documents

1. Status of the company and its subsidiaries / joint venture, details on investors.
2. Contract with the Rwandese government.
3. Registration documents.
4. License documents.
5. Organizational chart of the executive management, including year of incorporation and nationality.
6. Reporting documents to OGMR and Ministry of Trade
7. Declaration to the tax authorities
8. Financial audit documents and contact details of the auditors
9. List of suppliers and contact details
10. List of customers and contact details
11. Contracts with subcontractors and employees, especially person tasked with due diligence.
12. Yearly production and trading volume as per the company records (general and by site)
13. Corporate policies and procedures if available.
 - o Company policy for supply chain to suppliers
 - o Ethics, social responsibility, child labour, anti-corruption
 - o Health Safety and Environment
 - o Others

14. Details on grievance mechanism
15. Risk management plan
16. Report on supply chain due diligence
17. Other production records available,
18. Reports where the company is nominated, press extracts & details of cross checking researches.

Research

Based on the desk study and the data collection in the field, each team member will investigate specific aspects of the project and its relations with the DRC stakeholders. This will concern notably the armed groups presence, human rights abuses, sexual and gender based violence, violations of international and national regulations, including both legal and reputational related obligations. Research will also be oriented in order to raise any specific issues encountered during the fieldwork.

iTSCi database

With the support of IBM, iTSCi secretariat developed a very comprehensive database registering any single tag launched in the system, with detailed data on the name of the miner, different traders, comptoirs and exporters, and weight of the shipment at every stage. This database is expected to be a primary source of data. Checking consistency of the production records between mine sites and at the different levels, tags number, missing tags, possible double records and comparing them with the records of the state authorities and miners will be a significant part of the audit, and a starting basis for risk assessment. These checks will also concern also first records for which inconsistencies are identified in the database.

Sampling of economic exchanges in the minerals trading chain

The audit will check consistency of the traceability by reconciling business records and iTSCi database records to ensure that iTSCi covers all the production / trading of the minerals actors. The audit will check that the types of records kept at the company and the programme levels are appropriate and of sufficient quality, and that verification can be made against receipts, invoices, or other certifying documents.

Furthermore, a sample of business exchanges will be checked in detail to ensure consistency of the traceability system. The choice of the sample will ensure that identified fragilities / risks related to specific actors are checked and also for another part that some are randomly checked.

First, sampling of interventions will be checked against the different records available, identifying missing records / insufficient recording structure, at the various levels of the trading chain, and comparing these actual records with iTSCi database.

Then, the checking will start at the mine sites, whether in the DRC or in Rwanda, by checking records/receipts of miners if they have some and of the first purchasers.

Finally, the team will look into (monitor, investigate) the exchanges between the different traders, *comptoirs*, processing plants and exporters. The audit team will look at the company financial accounting system and bank reports to check records of purchases / production / sales against financial movements, as well as financial movements against receipts.

Considering the illiteracy of some of the miners who have to sign purchasing records, some interviews will complete the random checking to make sure that both the suppliers and the traders have the same understanding of the quantity and quality of minerals traded.

Secondly, a sample of minerals will be checked directly at the mine site with physical control at the different steps of the process, regarding origin, weight and quality of the products.

Semi-guided interviews:

Interviews with key informants and beneficiaries are expected to be the main source(s) of information for the evaluation, including sensitive issues regarding the question of illegal taxation. The team will keep and update a list including the names of all interviewed persons, the interview methodology, affiliation and gender.

All interviews will be conducted under the Chatham House Rules (no attribution of statements to the interviewed individual).

Focus groups:

For the assessment, the team will hold meetings with groups of community members, artisanal miners, staff of the partners, civil society on specific issues to discuss their experience of the project. Focus groups will be used for the stakeholder analysis and conflict mapping.

Direct Observation:

The team will review the work of partners on the ground (PACT, BEPAT, miners, transporters and traders) and the implemented operations by assisting to the mineral extraction, tagging system, processing at the mine sites, at traders plants and smelting. This will allow assessing the relationships between persons, mineral registration process.

Direct observation also includes attendance to conferences and workshops related to policy making and experts discussions.

2. Key informants

The main key informants will be the iTSCi management structure, the stakeholders directly involved in the mineral value chain and the State authority. However, the targeted interviewee list will be extended to external stakeholders, international organizations and civil society, mainly for risk assessment purposes.

iTSCi management structure

- ITRI personal
- T.I.C. personal
- iTSCi members
- EICC GESI
- iTSCi secretariat
- iTSCi implementers (PACT & BEPAT among others)
- Steering Committees
- Advisory Board members

Minerals value chain stakeholders

- ITRI & T.I.C.
- iTSCi members
- Artisanal miners
- Heads of artisanal miners groups
- Semi-industrial companies: managers and employees in headquarters and at the mine site (production, finances and administration, human resources, logistics, technical staff, security)
- Cooperatives and federations
- Traders & staff
- Transporters & staff
- Smelters & staff
- Exporters & staff
- Certifiers & staff
- Upstream users

Community members

- Local administrative authorities
- Traditional leaders
- Local churches
- Different groups of women
- Different groups of men (including demobilized soldiers)
- Children

State structures (national and decentralized level)

- Mine authority management
- Revenue authority
- Trade and industry authority
- Different customs & borders authority
- Security services (Police, Army etc...)

International Organisations

- SEC
- EICC GESI
- UN (DPKO, JMAC, UNDP, UNICEF, UNODC, IOM)
- ICGLR
- BGR - CTC
- EITI
- European Union Delegation
- ICRC
- World Bank

Civil Society

- Demobilized soldiers associations
- International and national NGOs (Caritas, Justice & Paix, International Alert, International Crisis Group, Save the Children, IPIS, Global Witness, Enough Project, Human Rights Watch)
- Professional syndicates

X. MANAGEMENT OF THE RISKS RELATED TO THE ASSIGNMENT

Channel Research is a consultancy specialised in assessments in unstable environments. We regularly take on assignments in locations such as Afghanistan, Pakistan, Eastern DR Congo and Darfur. Channel Research has developed a code of integrity, which is part of the commitment to this mission.

Channel Research's security policy puts the emphasis on prevention. It is the company's objective to identify security risks beforehand and to have systems in place that prevent the teams and partners from getting into any dangerous situations but also to have all necessary means in place in case an incident occurs. We see one of our strengths and advantages in the fact that for data collection we travel to locations and contexts where others cannot go because of their restrictive policies and bureaucracies.

At the same time a cautious approach is followed and it is ensured staff members, partners and informants are not exposed to any risk that is not justified by the objectives of this study. This is done by ensuring that relevant authorities and organisations are aware of the field mission and displacement on the ground, that sufficient data is collected on security situation in the field with the different pertinent organisations, as well as by ensuring confidentiality and anonymity in information exchanges, and obtaining the related assurance.