



# DUE DILIGENCE REPORT

CTL Supply Chain Due Diligence

June 2021

# 1 INTRODUCTION

Closing the Loop's (CTL) mission is to eliminate the waste created by electronics. Our main activity to achieve this is the collection of scrap mobile phones from Africa, as a compensation service for organisations in Europe.

In order to ensure the maximum positive impact of our activities, CTL demands the highest standards and regulations from actors within its supply chain. CTL integrated standards and regulations and publicly declares conformity, amongst others, with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

This report is written under the guidelines withing the OECD Guidance and informs about policies that ensure conformity in line with Annex II of the OECD Due Diligence Guidance.

As CTL collects mobile phones, this strategy not only apply to the Conflict Minerals, but to all parts of a mobile phone.

## 1.1 AT A GLANCE

What happened since the last Due Diligence Report (August 2020), a short summary:

- First approved collector under TCO Certified Edge, E-waste compensated and co-developing of the standard and requirements to be an approved collector of e-waste
- We wrote an Operational Excellence Report and prepared for a third-party audit that will take place in July 2021
- We did an official compliance trip to Ghana where we visited the warehouse, met Agents and gave a compliance training
- Closed partnerships with relevant resellers
- The Dutch government picked up the model of waste compensation into their mandatory public procurement tool to rate companies in their sustainability
- Continuously developing our Management System through ongoing due diligence and stakeholder consultations
- All milestones of last year's report were transformed into ongoing processes and due diligence measures

## CTL DUE DILIGENCE REPORT 2021

Read on in our Due Diligence report on the next page:

Closing the Loop is a signatory to the Dutch Gold Sector Agreement and follows the OECD Five-Step Framework for Risk Based Due Diligence in the Mineral Supply Chain.

For any inquiries, questions about our policies or documentation or for feedback reach out to [hannah.jung@closingtheloop.de](mailto:hannah.jung@closingtheloop.de)

# 2 FULL REPORT

## 2.1 THE BUSINESS MODEL

CTL's core business model is that of waste compensation for IT. In simple terms, clients purchase waste compensation, a service they add to their procurement of IT devices on a one-for-one basis. This service can be implemented regardless of the supplier or brand of their devices and can be added at any time of the product's lifecycle. For each waste compensation unit purchased, CTL collects an equivalent amount of e-waste in Africa. If, for example, a client purchases 10,000 mobile phones, CTL will collect 10,000 mobile phones from a country like Ghana and ensure that these devices are safely and responsibly recycled. This compensates for the waste created by the new devices. The service can be purchased directly from CTL or through a growing number of resellers.

Waste compensation is a financing mechanism to make e-waste collection and the recycling in informal markets (financially) sustainable.

## 2.2 COMPANY MANAGEMENT SYSTEM

In 2021 Closing the Loop further developed its Management System which manages, evaluates, improves, and develops the supply chain and relationships with all stakeholders involved in this supply chain. The company is run by key principles documented in our General Business Principles and put in practice through a Supplier Code of Conduct. These principles are translated into a system of policies, rules, and processes by which the company is directed and controlled. Developing the system is an ongoing process and we continuously finetune our processes and Standard Operating Procedures (SOPs).

For example, since last year we have a formal risk management system integrated into our Management System and can track all incidents or red flags. This led the company to being able to improve processes and SOPs to prevent risk occurrence. For example, after finding some devices with batteries through ongoing due diligence checks in our storage site in Africa, we now run an extra check in our e-waste packing process in which we ensure to remove all batteries from phones.

The responsibility to carry out due diligence and an annual due diligence is anchored in the Management System and attributed to CTL's Director of Supply Chains and the Operations & Responsible Business Coordinator.

## 2.3 CLOSING THE LOOPS SUPPLY CHAIN

Closing the Loops supply chain facilitates the process for waste and connects the upstream collection with downstream recycling. Closing the Loop knows all its 1<sup>st</sup> and 2<sup>nd</sup> tier suppliers in person. That makes it easy for to keep an overview of our supply chain.

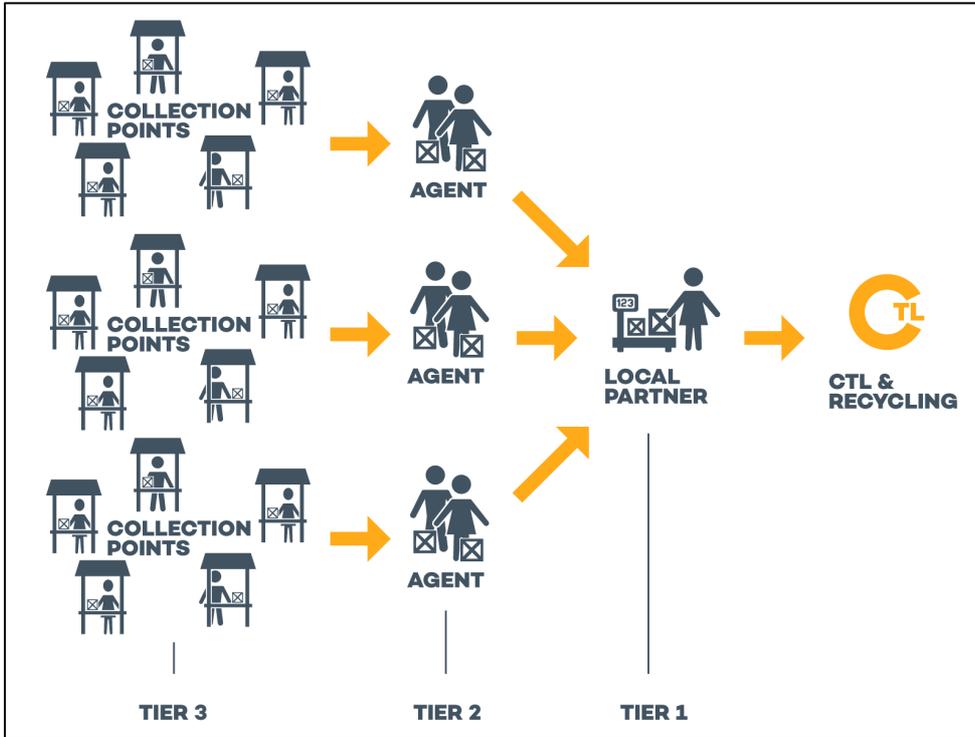


Figure 1 - Closing the Loop’s supply chain

CTL can declare that 100% of its employees and first and second tier downstream suppliers sign a contract, comply with the OECD Due Diligence Guidance and are aware of requirements to comply with the these. This enables CTL to know exactly who is working in the supply chain and to build up a trusted relationship with the partners. Prior to closing a partnership, potential partners must fulfil certain criteria. Besides delivering some information, partners are tested for their general business capabilities. This is tested based on responsiveness to emails, quick actions and understanding of CTL’s concept and work. Specific questions that are addressed to potential partners regarding the company policy also function as selection criteria.

CTL implemented Manuals and a set of SOPs to select and correctly instruct their (upstream) Local Service Partners (LSPs) and downstream partners (recycler/ refiners). The LSPs are trained to apply those selection procedures with their Agent (second-tier supplier) selection as well.

### 2.3.1 Transparency in the supply chain -KYC

CTL does a thorough scan of any supplier when entering a partnership. However, part of the due diligence is a program for ongoing monitoring of the partnership. We know our LSPs and Agents in person and meet them annually for trainings.

To ensure transparency in the supply chain CTL requires all partners in its supply chain to provide NAP (name, address, phone number), official ID, Incorporation certificate and to sign a contract (part of the acquisition processes).

Because of the size of the company and work with less formal partners we do not have any finance or transactional checks implemented for tier-2 and lower suppliers.

#### **2.3.1.1 Downstream acquisition**

Recyclers are selected on a project-by-project basis. When we are about to export an e-waste container we look into options. Most of the time the recyclers we successfully collaborated with in the past have a priority as we know that they can follow our very strict logistics compliance requirements. Every recycler and refiner we collaborate and collaborated with went through a thorough acquisition process in which we require transparency in refining processes, reporting, and certain certifications.

We are supporting our contracted refiner to be fully compliant with the CENELEC recycler standard. This is part of the due diligence we do with the recycler and it is also required by TCO Certified. We are working on frequently exporting e-waste to our current recycling facility. That would enable us to publicly report on the refinery.

CTL knows all its recyclers and refiners, as they are selected project-based by the company. CTL discloses a list of their recyclers and refiners to any stakeholders that request such a list. Recyclers have to comply with standards set forth by CTL. The recycler must provide official certificates (these are checked for validity), disclose the smelting (sub-) processes and information of by-product discharge. Furthermore, CTL checks all refiners against a recognized list of audited and accredited refiners list (RMI list- Responsible Minerals Initiative). Refiners and recyclers are not required to be certified by these lists, though their standards are applied by CTL, and CTL works with the refiners that don't have the certification in order to get certified where possible.

#### **2.3.1.2 Upstream acquisition**

Our long-term collaborating LSPs and any new LSPs are going through a few acquisition steps in which we not only ask for a lot of documentation but even ask them to run a trial e-waste collection. LSPs are responsible for the acquisition and are providing us with the right documents and information to onboard new collection Agents.

CTL has no figures on the compliance of 3rd level (and further) suppliers with the OECD Due Diligence Guidance. We are actively working to measure our 3rd tier supply chain partners compliance with the requirement as well and are confident to achieve that looking at the fact that our 2nd tier supply now already comply with the Guidance.

## 2.4 COMPANY POLICIES

After defining more policies in 2021 such as the Human Rights policy, which covers child labour, we actively trained our supply chain in those policies during a compliance trip in December 2020 to Ghana. The training involved a presentation of all Supplier Code policies, and we did an interactive part with the Agents in which they had to apply their learnings and solve compliance questions.

After implementing a Human Rights policy and ongoing due diligence in the beginning of 2020, we haven't received any human rights related risk or incidents related to Closing the Loops operations to date.

This shows that our newly developed policies are now fully streamed into ongoing processes and anchored into our supply chain.

Generally, as mentioned in the Management System chapter already Closing the Loop continuously further develops its set of policies integrates them and informs relevant parties.

## 2.5 TRANSPARENT STOCK

CTL uses a supply chain software called Chainpoint to ensure accurate and transparent stock. The software enables CTL to have an overview of all stock at all times and to know exactly where a batch comes from. We collect information around batch ID, weight, count, where a batch comes from and how much was paid.

Besides the software we do a thorough record-keeping system on paper with logbooks. This provides the ability to check for accuracy afterwards and reduces the risk of errors. Regular spot-checks are done to verify these entries. In 2021 we were able to do these checks more frequently and standardise the process.

## 2.6 IDENTIFY AND ASSESS RISK IN THE SUPPLY CHAIN - RED FLAG IDENTIFICATION

It is CTL's responsibility to continuously assess the risk in its supply chain. As part of the supply chain policy, CTL has a thorough red flag identification and mitigation system.

Several processes ensure that CTL can identify red flags at an early stage:

- Active Know Your Counterparty to ensure transparency of our supply chain.
- A Grievance mechanism was adopted in early 2020 and introduced to all supply chain partners. Grievances are handled by an independent Board member.
- Annual partner meeting in person to evaluate the partnership based on a thorough feedback. The first in-person meeting dedicated to this topic was in Ghana in December 2020
- CTL implemented a monthly feedback system and feedback evaluation with the supply chain partners to provide transparency and an early risk identification mechanism.
- Incident reporting system in our project management tool

- Regular internal checks on the stock
- Thorough research of politics or societal development in the area of operation
- CTL has frequent (average once a week) direct contact with all partners, and minimum once a year with second-tier suppliers.

It is CTL's ambition to eliminate risks before they occur, therefore the focus of the Risk Management Plan is on early risk identification. However, it is the company's responsibility to be prepared and have the right response measures in place in case a risk arises.

The company keeps track and documents all risk incidents in our risk management system. Together with a senior Manager a suitable mitigation activity is identified and monitored.

## 2.7 DESIGN AND IMPLEMENT A STRATEGY TO RESPOND TO IDENTIFIED RISKS

Closing the Loop has a documented process in place for identified risks. All identified risks in our supply chain are mitigated as soon as possible. As part of CTL's risk management system, each of the risk identification processes named under chapter 2 have documented remediation SOPs in place.

- Any risk and red flags (following CTL's red flag definition) are documented and handled in a formal system (supply chain risk management plan) that includes the documentation and reporting it to Senior Management
- Red flag mapping and assessing the effect of risks on other business relationships to alleviate further risks
- Mitigation and remediation plan: The performance of the risk mitigation efforts is monitored and regularly reported to Senior Management. Under change of circumstances, CTL undertakes an additional fact and risk assessment.
- Policy implementation and training: Policy development and implementation involves research to be aware of potential risks. To prevent risks we train our partners regularly about our policies, which align with official standards and laws.
- Any unexpected risks are handled by Senior Management and perhaps an external expert party.

## 2.8 FORMALISING OF DUE DILIGENCE STANDARDS

As part of the supply chain policy, Closing the Loop has formalised and documented processes around its supply chain due diligence processes. In a documentation and formalisation project that has been running since the beginning of 2020, the company focuses on standardising internal activities and processes that support an ongoing supply chain due diligence. The due diligence processes follow the OECD Due Diligence Guidance. These are also inherently mentioned in all partner contracts.

A big milestone for Closing the Loop is a third-party audit project that was started in early 2021. Together with leading consultancies we are working towards getting our processes and activities audited. The audit will be accompanied by an operational transparency.

At the same time, we still allow external third-party audits by any of our partners if needed.

## **2.9 REPORT ANNUALLY ON SUPPLY CHAIN DUE DILIGENCE**

CTL reports on supply chain updates and due diligence through our website in forms of blog posts, an annual due diligence report and amendments of the Code and the Business Principles when needed. Additionally, once a year we offer every client, stakeholder or any other interested party to gain insights into our due diligence efforts. This must be requested by the company.

For the second year in a row, in this report we can show our successful results and efforts to improve and develop our management systems and our policies.

## **2.10 PERFORMANCE INDICATORS AND OUTLOOK FOR 2021/ 2022**

Though the pandemic had a big influence on our business we are proud of what we have achieved the past year with our Due Diligence policies and efforts. Heading towards 2022, we aim to continue our work and upscale commercially and grow our supply chain. The progress we have made within our supply chain's due diligence is essential to scale sustainably and ethically. We feel that we have improved all aspects of our supply chain and we continue to look for areas to improve. Some topics we will address in the coming year including:

- Scale our supply chain and expand the service to other products
- Increasing the number of workers and formalise their work
- Increasing compliance and certification of our recyclers
- Making our corporate governance more transparent and efficient
- Running audits at two CTL locations in Africa
- Getting CTLs operations audited