

Assessing and Enhancing the Contribution of Small and Medium-scale Enterprises to Due Diligence for Responsible Mineral Supply Chains

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Assessing and Enhancing the Contribution of Small and Medium-scale Enterprises to Due Diligence for Responsible Mineral Supply Chains

By Dr. Yolande Kyngdon-McKay

August 2015



Authorship

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Abbreviations and Acronyms

3TG	Tin, tantalum, tungsten and gold
APEC	Asia-Pacific Economic Cooperation
BGR	Bundesanstalt für Geowissenschaften und Rohstoffe (<i>German Federal Institute for Geosciences and Natural Resources</i>)
BJQ	Birmingham Jewellery Quarter
BMZ	Bundenministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry for Economic Cooperation and Development)
CoC	Chain of Custody Certification
CFSI	Conflict Free Sourcing Initiative
CMRT	Conflict Minerals Reporting Template
CSR	Corporate Social Responsibility
DFA	Dodd-Frank Act
DRC	Democratic Republic of Congo
EC	European Commission
ELL	Estelle Levin Ltd.
EU	European Union
KP	Kimberley Process
OECD	Organisation for Economic Cooperation and Development
OECD DDG	OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas
OECD GMNEs	OECD Guidelines for Multinational Enterprises
REACH	Registration, Evaluation, Authorisation and restriction of Chemicals
RJC	Responsible Jewellery Council
RoHS	Restriction of the Use of Certain Hazardous Substances
SEC	Securities and Exchange Commission
SMEs	Small and Medium-scale Enterprises
UK	United Kingdom
USA	United States of America

Glossary of Terms

The **OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas** (hereafter the OECD DDG or DDG) is a due diligence framework that was developed to enable companies to identify and manage conflict mineral risks in their supply chains.¹ It consists of a five step framework, including (1). 'Establish strong company management systems'; (2). 'Identify and assess risks in supply chain'; (3). 'Design and implement a strategy to respond to identified risks'; (4). 'Carry out independent third-party audit of refiner's due diligence practices'; and (5). 'Report annually on supply chain due diligence'. The DDG has separate supplements for the 3Ts, and gold. The OECD encourages SMEs to adapt the DDG in accordance with their own size and risk profile.

The **European Union's (EU) definition of SMEs** was used to identify participants for the online survey and SME interview portions of this study: "The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million."²

The term "**conflict minerals**" refers to those minerals that have been formally recognised in the Dodd-Frank Act (DFA) Section 1502 as being associated with conflict in the Democratic Republic of Congo (DRC), namely tin (cassiterite), tungsten (wolframite), tantalum (columbite-tantalite) and gold, otherwise known as '3TG' or 'the 3Ts and gold'. Under the DFA, any gold, tin, tantalum, tungsten is considered a conflict mineral, irrespective of whether or not it is linked to conflict in the DRC or surrounding countries. In other definitions of conflict minerals, only those minerals proven to have been associated with conflict would be "conflict minerals". For the purpose of this study the DFA definition of conflict minerals is used.

Dodd-Frank Act Section 1502 is legislation that requires Securities and Exchange Commission (SEC) reporting companies (as per Sections 13[a] or 15[d] of the Exchange Act) in the United States of America (USA) to identify and report "conflict minerals" in their supply chains; namely, in the products they manufacture or contract to manufacture, with the minerals being "necessary to the functionality or production"³ of those goods. This law does not prohibit the use of conflict minerals.

The electronics industry is involved in the design, production, distribution and trade of electronic parts, components and products, such as semiconductors, transistors and personal electronic devices. Companies in the electronics industry are highly likely to have 3TGs present in the products they manufacture or contract to manufacture. Gold is valued for its conductivity, corrosion and low contact resistance, and wirings, connectors and coatings containing gold are often present in electronics, including cell phones, laptops, and large devices, such as televisions. Tin is often used in electronic solder,⁴ while tungsten is often present in electrodes, wires and contacts.⁵ Tantalum is used in myriad parts and components, including circuits, lenses and hard drive discs.⁶

¹ See: *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (Second Edition)* <http://www.oecd.org/corporate/mne/GuidanceEdition2.pdf>.

² Eurostat n.d., *Reference and Management of Nomenclatures (RAMON)*, accessed 6 January 2015, http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=DSP_GLOSSARY_NOM_DTL_VIEW&StrNom=CODED2&StrLanguageCode=EN&IntKey=17399050&RdoSearch=&TxtSearch=&CboTheme=&IsTer=&ter_valid=0&IntCurrentPage=1.

³ U.S. Securities and Exchange Commission. N.d. *Fact Sheet: Disclosing the Use of Conflict Minerals*. Retrieved 18th of May 2015 from <http://www.sec.gov/News/Article/Detail/Article/1365171562058>.

⁴ ITRI. N.d. *Tin Use*. Retrieved 3rd of June 2015 from https://www.itri.co.uk/index.php?option=com_zoo&task=item&item_id=9&Itemid=65.

⁵ International Tungsten Industry Association. N.d. *Primary uses of tungsten*. Retrieved 9th of April 2015 from <http://www.itia.info/tungsten-primary-uses.html>.

⁶ TIC. N.d. *Tantalum – Raw Materials and Processing*. Retrieved 17th of June 2015 from <http://tanb.org/tantalum>.

The jewellery industry encapsulates the design, manufacture and trade of jewellery, watches and ornaments. Although it does not commonly use the 3Ts in its products,⁷ tungsten is becoming more popular in jewellery for men. The industry also accounts for roughly 49% of global gold consumption.⁸ Tin alloys can also occasionally be used in the casting of jewellery pieces and soldering.

The automotive industry is responsible for the design, manufacture and trade of personal and commercial road vehicles, including cars, trucks, and motorbikes. The electrical components in these vehicles **account for a significant portion of 3TG present in this industry, however, tin catalysts, coatings, alloys and additives, and tungsten lubricity coatings are also common, as are multiple parts and components made with tantalum.**⁹

The medical technology industry designs, manufactures and trades medical equipment. Due to the prevalence of electrical components in its products, the 3TGs are often present in its supply chains. However, other products such as surgical instruments, prosthetic devices and wire meshes can also contain one or more of the 3TGs.¹⁰

⁷ Cheap costume jewellery can occasionally contain tin.

⁸ World Gold Council. N.d. Facts about gold. Retrieved 3rd of June 2015 from <http://www.gold.org/history-and-facts/facts-about-gold>.

⁹ AIAG. N.d Conflict Minerals in Cars. Retrieved 18th of May 2015 from https://www.aiag.org/staticcontent/committees/download_files/download.cfm?fname=ConflictMineralsCars.pdf.

¹⁰ Price Waterhouse Cooper. 2013. Conflict minerals: What does Dodd-Frank Section 1502 mean for companies in the Medical Device Industry? Powerpoint presentation. Retrieved 18th of May 2015 from <http://www.medsoc.org/pdfs/Szczesny-PwCConflictMinerals.pdf>, slide 9.

Executive Summary

This report, 'Assessing and Enhancing the Contribution of Small and Medium-scale Enterprises to Due Diligence for Responsible Mineral Supply Chains', examines the findings of a study commissioned by the Bundesanstalt für Geowissenschaften und Rohstoffe, or the German Federal Institute of Geosciences and Natural Resources (BGR) and conducted by Estelle Levin Ltd. into how small and medium-scale enterprises (SMEs) in the jewellery, medical technology, automotive and electronics industries in Europe, the United States of America and China are managing their "conflict minerals" reporting and/or due diligence requests and/or obligations. The study was initiated by BGR in response to a session held at the 7th meeting of the ICGLR-OECD-UN GoE multi-stakeholder forum in 2014. The goal of this session was to consider the specific challenges for SMEs in performing supply chain due diligence. The session suggested that there was a general lack of awareness of this issue and potential capacity limitations within the downstream SME sector. BGR and participating stakeholders wanted this sector to be further investigated with the ultimate goal to provide recommendations as to how these apparent challenges could be collectively overcome. This study is a direct contribution to the Organization for Economic Cooperation and Development's (OECD) implementation programme for the Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (DDG).

Terms of Reference

The study had the following terms of reference:

1. Overview conflict mineral due diligence and the role of SMEs in the downstream supply chains of 3TG;
2. Determine the implementation of conflict minerals reporting and/or due diligence activities by SMEs, analyse the reported challenges and/or successes experienced to date, and identify best practice recommendations;
3. Investigate the experiences of large-scale companies regarding engagement with SMEs in their supply chains, analyse reported challenges and/or successes with supplier implementation of reporting practices/due diligence, and identify best practice recommendations;
4. Make recommendations for relevant stakeholders to support SMEs in their performance of conflict minerals reporting and due diligence activities, including the OECD Secretariat, national/local governments, chambers of commerce, industry associations, large-scale companies, international organisations, international donors and other multi-stakeholder initiatives; and
5. Summarise the results of the study and describe the methodology used.

The study used the European Union's definition of SMEs: enterprises that have fewer than 250 employees and an annual turnover of equal to or less than €43 million.¹¹ The term "conflict minerals" refers to those minerals that have been formally recognised in the Dodd-Frank Act Section 1502 as being associated with conflict in the Democratic Republic of Congo, namely tin (cassiterite), tungsten (wolframite), tantalum (columbite-tantalite) and gold, otherwise known as '3TG' or 'the 3Ts and gold'. The Dodd-Frank Act Section 1502 requires Securities and Exchange Commission reporting companies in the USA to identify and report "conflict minerals" in their supply chains; namely, in the products they manufacture or contract to

¹¹ Eurostat n.d., *Reference and Management of Nomenclatures (RAMON)*, accessed 6 January 2015, http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=DSP_GLOSSARY_NOM_DTL_VIEW&StrNom=CODED2&StrLanguageCode=EN&IntKey=17399050&RdoSearch=&TxtSearch=&CboTheme=&IsTer=&ter_valid=0&IntCurrentPage=1.

manufacture, with the minerals being “necessary to the functionality or production”¹² of those goods. The Dodd-Frank Act recommends that companies implement the DDG—a five-step framework that can help companies to identify and manage conflict mineral risks in their supply chains.¹³

SMEs dominate much of the global economy and have a key role in the electronics, jewellery, automotive and medical technology industries, performing tasks including processing, part and component manufacturing, product assembly, and, primarily in the case of the jewellery industry, retailing also. Consequently, SMEs can be central to the production and distribution of products containing “conflict minerals”—tin, tantalum, tungsten and gold.¹⁴ Nonetheless, there is limited existing research into how SMEs are managing this issue.

Methodology

Data was collected using both qualitative and quantitative research methodologies, including an online survey, and semi-structured interviews. To ensure that companies from around the world could participate in the study, the survey was available in English, French, German and Mandarin, and the semi-structured interviews could be conducted in these four languages, plus Italian. The online survey targeted SMEs specifically, while the semi-structured interviews were conducted over the phone and in person with SMEs, large-scale companies and industry associations. The survey was available online from mid-February to mid-April 2015, and interviews were conducted either over the phone or in person from mid-February to early May 2015. The data collected in the SME interviews, and large-scale company and industry association interviews was triangulated and framed under identified themes. All study participants were given anonymity.

The study experienced some challenges with recruiting SMEs for the online survey, with a maximum meaningful participation number of only 45. The difficulties with obtaining a large sample of SMEs are not unique to this study.¹⁵ The European Commission (EC) has also classified SMEs as a “hard-to-reach group”,¹⁶ including for research purposes. Despite the survey’s small sample size, the findings that emerged were nonetheless chiefly supported by the findings of the semi-structured interviews, which were carried out with 17 SMEs, 15 large-scale companies and four industry associations. This successful triangulation of the survey and interview data suggests that the study’s findings possess considerable validity. Even so, it would be prudent to conduct further research into the topics covered in this study prior to developing policy or industry support based on its findings.

¹² U.S. Securities and Exchange Commission. N.d. Fact Sheet: Disclosing the Use of Conflict Minerals. Retrieved 18th of May 2015 from <http://www.sec.gov/News/Article/Detail/Article/1365171562058>.

¹³ See: OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (Second Edition) <http://www.oecd.org/corporate/mne/GuidanceEdition2.pdf>.

¹⁴ As recognized by the DFA.

¹⁵ Möllenhoff, J., et al. 2014. *Small to Medium-sized Enterprises (SMEs): Uptake, Access and Impact of Certification in the Jewellery Supply Chain*. The Graduate Institute Geneva; Carrigan, M. et al. 2015. *Signalling Change: Jewellery SMEs and Corporate Social Responsibility*. Coventry: Coventry University.

¹⁶ European Commission. N.d. *Opportunity and Responsibility: How to help more small businesses to integrate social and environmental issues into what they do*. Directorate-General for Enterprise and Industry, p.11.

Findings

The key findings of the online survey of SMEs are as follows:

- The main due diligence activity being carried out by SMEs is completing reporting templates;
- The majority of SMEs experience challenges with conflict minerals reporting, including suppliers being slow to respond or unresponsive, and customers demanding reporting be completed within unreasonable timeframes;
- SMEs that do *not* experience any problems with the reporting process stated that it was because their suppliers responded quickly, and customer timelines for completion were reasonable;
- The majority of SMEs are currently experiencing no positive outcomes as a result of their reporting activities. The positive benefits some SMEs experience on account of their reporting activities include improved supply chain transparency and better supply chain management, while the negative consequences include increased supply chain management costs;
- The majority of SMEs who seek assistance with reporting approach industry associations;
- SMEs would like additional resources to complete reporting, including more training and staff, and more information on what is expected of them;
- Step two of the DDG is the most challenging for SMEs to implement, which aligns with the struggles they reported experiencing with communicating with their suppliers;
- The benefits of implementing the DDG for SMEs include increased supply chain transparency and better relationships with customers, while the negative consequences include increased supply chain management costs and changed relationships with suppliers;

The interviews with SMEs yielded many similar findings to the survey portion of the study. SMEs spoke of the following challenges they had experienced with conflict minerals reporting:

- An inability to trace their supply chains;
- Customers failing to provide relevant advice/information when making conflict minerals reporting requests;
- Difficulty accessing reliable advice/information about the conflict mineral issue in required languages, and poorly translated reporting templates;
- Increased supply chain management costs and few financial incentives to perform reporting; and
- Policy that does not recognise their unique needs as smaller companies.

Overall, the findings of the SME survey and interviews suggest that many SMEs are struggling with the conflict mineral issue and reporting requests from their customers. The findings also indicate that their need for more advice, information and support in the completion of these requests is not currently being met, which likely undermines their ability to provide their customers with reliable information about conflict minerals in their supply chains. Moreover, the incentives for SMEs to independently develop their own capacity for managing this issue do not currently exist in the industries examined for this study.

The study did not find a best-practice example of an SME completing conflict mineral reporting and/or due diligence activities. It was therefore decided to develop a composite best-practice example of what SMEs could do to improve the efficacy and efficiency of their reporting and/or due diligence activities, based on the findings of the survey and the interviews with SMEs, large-scale companies and industry associations.

The recommendations for SMEs include:

- Implementing suitable data management systems;
- Tasking at least one person in the company with the responsibility for conflict minerals reporting;

- Being proactive on the issue of conflict minerals by staying informed, seeking training opportunities and engaging with their own suppliers about the issue as early as possible;
- Networking with other SMEs to gain insight into how they have managed conflict mineral obligations; and
- Accepting their role in responsible mineral sourcing, but understanding that their customers should not place unreasonable demands on them (such as asking for 'conflict free' assurances).

It should not be assumed, however, that these measures would be easy for SMEs to implement—the resource and capacity limitations many of them face will not be overcome without considerable support from their customers, governments and industry associations, which will be explored further in the recommendations below.

The goal of the semi-structured interviews with large-scale companies and industry associations was to gain an understanding of the challenges and/or successes these organisations had witnessed their own suppliers or members, including SMEs, experience with conflict minerals reporting and due diligence activities. Some of these findings include the following:

- Suppliers possess highly variable degrees of awareness of the conflict mineral issue—some have zero knowledge, some know enough to reach compliance;
- Suppliers that struggle with conflict minerals reporting and/or due diligence activities are typically small, located in regional areas, receive few reporting requests, and have no experience with Registration, Evaluation, Authorisation and restriction of Chemicals (REACH) and Restriction of the Use of Certain Hazardous Substances (RoHS);
- Some SMEs do nonetheless have attributes that can make their conflict minerals management easier, including flatter company hierarchies and better hands-on knowledge of component/part materials;
- SMEs can suffer from serious resource constraints that undermine their reporting and/or due diligence activities, including inadequate funding, manpower and a lack of necessary data management systems, as well as management disinterest in the issue; and
- SMEs need concrete frameworks to implement due diligence—the OECD DDG is too flexible and complex.

The interviews with large-scale companies and industry associations were also designed to elicit information about challenges and/or successes large-scale companies had experienced with their suppliers. Some of these findings are as follows:

- Suppliers can be reluctant to engage on the issue of conflict minerals, and can provide misleading information in reporting templates. However, the quality of submitted reports has increased in the past two years;
- Few large-scale companies remove uncooperative suppliers, including SMEs, from their supply chains because it can be very difficult to limit the resultant negative impacts on the product and/or sourcing process. However, some companies are claiming that severe consequences for non-compliance will be meted out soon;
- Conflict minerals training is seldom provided by large-scale companies to their SME suppliers, often because they do not rate on internal risk assessments;
- Large-scale companies that engage with their suppliers early on the conflict mineral issue, and help them to develop capacity, can go on to enjoy largely hassle-free conflict minerals reporting in their supply chains.

In relation to the last point, the study developed a 'best practice' example of how large-scale companies can manage the conflict mineral issue within their supply chains, which was named the 'go early, give support' model of supplier engagement. This model was based on the practices of three of the large-scale companies that participated in the study, all of whom reported that they now experience relatively hassle-free conflict minerals reporting activities in their supply chains. This made them outliers in their cohort.

These large-scale companies were found to have done the following to enable that outcome:

1. They had communicated with their suppliers, including SMEs, about the conflict mineral issue early – typically around the same time it came to the attention of US regulators (in one case as far back as 2008); and
2. They subsequently worked diligently to develop their suppliers' capacity to investigate their products and supply chains, and complete conflict minerals reports (via training programmes and/or one-on-one consultations).

This early engagement with their suppliers, and their provision of any necessary assistance to overcome recognised capacity constraints within those companies (which had included limited knowledge of the conflict mineral issue; refusals to provide requested information; and an inability to complete reporting requests) enabled their suppliers to develop the required capacity to play a meaningful role in responsible mineral sourcing. These large-scale companies stated in the interviews that nowadays:

- A large proportion of their suppliers have high levels of awareness of the conflict minerals issue (as high as 95%, in one instance);
- Their suppliers submit high-quality conflict minerals reports (in terms of validity and completeness); and
- Supplier size is *not* an indicator of report quality.

The 'go early, give support' model therefore appears to help SMEs overcome many of the limitations that undermine their conflict mineral reporting activities (such as knowledge and skills gaps), in turn enabling them to compete with their larger peers in terms of report quality. It is therefore recommended that large-scale companies implement the 'go early, give support' model of supplier engagement.

Recommendations

In addition to the abovementioned recommendations for SMEs and large-scale companies, this report makes the following recommendations for industry (including industry associations):

- Large-scale companies should ensure that they provide their suppliers with enough relevant information about their reporting requests (ideally in their suppliers' mother tongue) so that suppliers can understand the issue and what is expected of them;
- Large-scale companies should also endeavour to provide conflict minerals training opportunities to their suppliers whenever possible;
- Industry associations should ensure that they have sources of accurate information about the conflict mineral issue available on their websites for SMEs to access (and in turn share with their own suppliers as necessary);
- Industry associations are encouraged to provide a full spectrum of training options to SMEs, including entry level courses that cover the basics of conflict minerals and associated reporting and due diligence activities;
- Industry associations are encouraged to ensure that translations of reporting templates are carried out only by certified translators, and consider opportunities for the alignment of reporting templates across different industries to standardise reporting wherever possible.

The key findings of the study in relation to the OECD DDG are that it has low penetration in the SME sector, and this is most likely a result of it being too cumbersome for SMEs to implement, and too vague in its recommendation that SMEs adapt its five-step framework in accordance with their own size and risk profile. It is therefore recommended that the OECD:

- Incorporate into the DDG (or surrounding literature) a best practice example of an SME adapting the DDG to its size and risk profile;
- Develop a Frequently Asked Questions (FAQ) hub on the OECD website that explores the DDG's adaptation by SMEs (made available in different languages, if possible);
- Develop this best practice example and FAQ hub in cooperation with stakeholders and relevant policy makers, in order to have an internationally agreed understanding of what is expected of SMEs.

The governments of states affected by conflict mineral regulations should also provide support to SMEs to assist their comprehension of the conflict mineral issue, reporting/due diligence activities, and their role in responsible mineral sourcing. They should also provide support to organisations, like industry associations, to perform this role (or expand upon their existing SME offerings). Governments are furthermore encouraged to do the following:

- Assist/encourage relevant bodies—chambers of commerce, business associations, and so on—with the establishment of regional forums that bring SMEs together (either in person or virtually) to enable knowledge sharing and peer networking. Existing regional forums could also be built-upon to include the conflict mineral issue in their scope. Industry associations with regional offices should also be incentivised to participate in such schemes;
- Ensure that laws that either recommend or require the implementation of the DDG clearly state that companies (particularly SMEs) are to be tasked with only their fair share of any reporting and/or due diligence obligations, and heavier burdens must be borne by large-scale companies in the performance of these activities;
- Establish grievance mechanisms that enable SMEs to lodge complaints when they believe that they are being burdened with excessive requirements by their customers, or if unreasonable 'conflict-free' or 'Africa-free' assurances are being demanded. Appropriate processes for investigating and managing these complaints would also need to be developed.

The best outcomes for responsible mineral sourcing would arguably be enabled by all of the abovementioned stakeholders—industry, government, and the OECD—fully embracing their role in the provision of the recommended support measures to SMEs in affected industries.

Conclusion

Conducting research into the efficacy of SME implementation of conflict minerals reporting and due diligence activities is vital for identifying existing weaknesses that may be undermining the realisation of legitimate responsible mineral supply chains. Investigating how large-scale companies and industry associations have managed reporting and due diligence activities with their suppliers and members is also important to identifying potential success stories in the amelioration of SME limitations. In the EU context, this information is particularly relevant given the upcoming conflict minerals legislation. As the "overwhelming majority of affected EU importers (i.e. traders, smelters/refiners, and manufacturing companies) are SMEs or micro-enterprises",¹⁷ it follows that in order for EU downstream companies to responsibly source minerals an appropriate burdening of SMEs throughout affected supply chains should be clearly stated in the law. Furthermore, efforts must be taken to empower SMEs around the world to adequately fulfil their roles in responsible mineral sourcing. This research goes some way to illuminating what that enablement could look like, how it could be carried out, and by whom.

¹⁷ European Commission. 2014. Commission Staff Working Document: Impact Assessment: Accompanying the document Proposal for a Regulation of the European Parliament and of the Council setting up a Union system for supply chain due diligence self-certification of responsible importers of tin, tantalum and tungsten, their ores, and gold originating in conflict affected and high-risk areas, p.6.

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1 Introduction

This study is an analysis of how SMEs in the jewellery, medical technology, automotive and electronics industries are managing their conflict minerals reporting and/or due diligence requests and/or obligations. SMEs are suspected of having particular difficulties with the implementation of reporting and due diligence measures, however research into this issue is minimal. **The study's key goals are to analyse the role of SMEs in responsible mineral supply chains, identify where the key challenges lie for SMEs in implementing conflict minerals reporting and due diligence activities, and provide recommendations as to how government, industry and industry associations can support and incentivise SMEs to develop the required capacity to perform conflict minerals reporting and due diligence activities efficiently and effectively.**

1.1 Terms of Reference

The terms of reference for this study originally included the following deliverables:

1. Introduction of due diligence issues and the role of SMEs in the downstream supply chains of 3TG;
2. Analysis of existing due diligence measures performed by SMEs, with particular regard for the OECD DDG's five steps, and an analysis of the reported negative/positive experiences of SMEs to date;
3. Best practice examples of SMEs effectively implementing the five steps of the OECD DDG, including concrete examples and recommendations, as well as the inclusion of specific materials in the appendix, when suitable;
4. Specific recommendations for relevant stakeholders to support SMEs in their performance of conflict minerals reporting and due diligence activities, including the OECD Secretariat, national/local governments, chambers of commerce, industry associations, large-scale companies, international organisations, international donors and other multi-stakeholder initiatives;
5. Summary of the results of the study and a description of the methodology used.

As the study progressed the low uptake of the OECD DDG by SMEs was recognised; SMEs were found to be predominately participating in the conflict mineral issue via reporting activities, and not the implementation of the DDG or other more elaborate due diligence methods. Furthermore, the study also encountered difficulties recruiting SMEs for the survey. Consequently, deliverables two and three were redeveloped as follows:

2. Determine the implementation of conflict minerals reporting and/or due diligence activities by SMEs, analyse the reported challenges and/or successes experienced to date, and identify best practice recommendations; and
3. Investigate the experiences of large-scale companies regarding engagement with SMEs in their supply chains, analyse reported challenges and/or successes with supplier implementation of reporting practices/due diligence, and identify best practice recommendations.

1.2 Methodological Approach

The scope of the study was limited to SMEs in the automotive, electronics, jewellery and medical technology industries in China, Europe and the USA. These industries were selected following an analysis of 10 industries, which assessed factors including the prevalence of gold, tin, tantalum and tungsten in their products, perceived engagement in the discourse surrounding conflict minerals, and their exposure to US and European markets (which are taking the lead internationally on laws introducing due diligence on conflict minerals in supply chains).

This study used both qualitative and quantitative research methodologies, including an online survey with closed and open-ended questions (derived partially from the questions in the OECD study ‘Downstream Implementation of the OECD Due Diligence Guidance for Responsible Mineral Supply Chains of Minerals from Conflict-Affected and High-Risk Areas’)¹⁸, and semi-structured interviews. The online survey targeted SMEs in the chosen four industries, and the semi-structured interviews were conducted over the phone and in person with SMEs, large-scale companies and industry associations.

The SME survey was available online from mid-February to mid-April 2015, and was designed to achieve two key things:

- Understand how SMEs are managing conflict minerals reporting activities;
- Determine how prevalent the uptake was of the DDG and other due diligence activities, and which challenges/successes SMEs had experienced with their chosen due diligence practices.

To engage with SMEs from multiple regions, the survey was made available online in four languages (English, French, German and Mandarin). Over 250 large-scale companies and approximately two-dozen industry associations around the world were contacted via email in mid-February and asked to disseminate the survey to SMEs in their networks. Reminder emails were sent one month later. The contacted organisations were provided with a detailed overview of the study and its goals (translated as required), letters of introduction in the four languages to send to their suppliers/members around the world, and letters of support for the study from BGR and the OECD (translated as required).¹⁹ The survey was also advertised on the websites of the OECD, BGR, and Estelle Levin Ltd., and promoted in multiple conflict mineral forums on LinkedIn.

The questionnaire contained several qualifying questions to promote internal validity; respondents had to be classifiable as an SME based on the EU definition (fewer than 250 employees, less than €50 million annual turnover), and must have had at least one of the 3TGs in products they manufacture or contract to manufacture in order to qualify for the study. (There are concerns within the public and private sectors as to the broadness of the EU’s SME definition and whether micro enterprises should be considered a separate group. This distinction was beyond the capacity of this study but should be considered in further research). Furthermore, in order to qualify for answering questions about specific conflict minerals activities, such as engagement in reporting activities or usage of the OECD DDG, respondents had to answer in the affirmative to specific filter questions.

The survey was split into two sections: the first asked respondents about their experiences with conflict minerals inquiries from customers, their engagement in conflict minerals reporting activities and any due diligence activities they may have engaged in. The second half of the survey asked respondents about their implementation of the OECD DDG and their experiences therewith. In total, 45 SMEs participated in the survey to a meaningful degree, as will be explored from page 10.

¹⁸ OECD. 2013. *Downstream Implementation of the OECD Due Diligence Guidance for Responsible Mineral Supply Chains of Minerals from Conflict-Affected and High-Risk Areas: Final downstream report on one-year pilot implementation of the Supplement on Tin, Tantalum, and Tungsten*. Retrieved 16th of July 2015 from <http://www.oecd.org/corporate/mne/DDguidanceTTTpilotJan2013.pdf>.

¹⁹ The letters of introduction and support were accessible via a publicly shared folder in Sugarsync.

The semi-structured interviews with SMEs, large-scale companies and industry associations were performed in English, German, Mandarin and Italian.²⁰ In the case of large-scale companies and industry associations, interviewees were recruited via mass emails, referrals and requests for participation amongst participants of the Conflict Free Sourcing Initiative (CFSI) Meeting in Brussels, 17th of March 2015. In contrast, SME interviewees were recruited exclusively via referral from their direct customers or the industry associations of which they were members. A total of 17 SMEs from the jewellery and electronics industry were interviewed, two located in China and 15 in Europe. In addition to SMEs, 15 large-scale companies and three industry associations in the jewellery and electronics industries in the USA, China and Europe were interviewed. One interviewed industry association did not represent a single industry but was instead an industry-wide association. In total, 36 interviews were carried out.

The goal of the semi-structured interviews with SMEs was to acquire a deeper understanding of their experiences with the conflict mineral issue, their reporting and due diligence activities, and any associated challenges and/or successes they had experienced. This information was then used to construct a composite 'best practice' case study example of a fictional SME—a technique typically used in sociology to prevent the unintentional deductive disclosure of research participants.²¹ This best practice case study was designed to provide an example to industry of how SMEs can attempt to manage the conflict minerals reporting process, and is explored in-depth on pages 30-1.

The goal of the interviews with large-scale companies and industry associations was to gain an understanding of the challenges and/or successes these organisations had witnessed their own suppliers or members, including SMEs, experience with conflict minerals reporting and due diligence activities. The interviews were also designed to elicit information about challenges and/or successes large-scale companies had undergone with their suppliers during conflict minerals reporting and/or due diligence activities.

The data collected in the SME interviews, and large-scale company and industry association interviews was triangulated and framed under identified themes.

All study participants were given anonymity to encourage full and frank survey and interview responses. Quotes from study participants have been de-identified and clarified whenever necessary.

1.2.1 Research Limitations

The first half of the online survey, which covered conflict mineral reporting activities, was answered by between 25 to 45 SMEs, depending on the questions that were relevant to them. In contrast, the second half of the survey, which inquired as to application of and experiences with the OECD DDG, was answered by only eight SMEs. This high attrition rate is attributable to several factors, including:

- The DDG is too complex and expensive for the majority of SMEs to implement, and thus its penetration is likely to be quite low (which was confirmed in the SME interview portion of the study);
- The resource constraints experienced by many SMEs means that they may not have someone available to complete a 30 minute survey;
- The survey questions required a detailed knowledge of a company's due diligence activities and it was not possible to target employees within SMEs with direct responsibility for those activities.

²⁰ There was no demand for interviews to be carried out in French.

²¹ See: Hopkins M. Is anonymity possible? Writing about refugees in the United States. In: Brettell C, editor. When they read what we write: The politics of ethnography. Westport, Connecticut: Bergin and Garvey; 1993. pp. 121–129.

The difficulties experienced in recruiting a large SME sample size are not unique to this study; others have reported similar challenges.²² The European Commission (EC) has classified SMEs as a “hard-to-reach group” because of “[t]heir sheer number and diversity, combined with the fact that their owners and managers are often very busy and intensely focused on ensuring the short-term survival of the enterprise...”²³ This study was also impacted by only several of the contacted large-scale companies and industry associations disseminating the survey to their suppliers or members. The reasons typically given for declining to do so were as follows:

- Communication with suppliers/members needs to be kept clear of ‘unnecessary’ correspondence;
- Suppliers are asked to complete enough surveys for their customers already;
- It is company policy to not engage in research of this nature;
- The SEC reporting period is coming up and suppliers could be confused by the survey if they conflate it with the reporting template they have received from customers.

There were also cultural issues that undermined the researchers’ engagement with SMEs; the fact that conflict minerals is often a sensitive topic meant that in China speaking with SMEs about this issue without a formal introduction from a mutual contact whom they completely trusted (known in Confucian societies as ‘*guanxi*’) was not possible.²⁴ This meant, as abovementioned, that only two Chinese SMEs could be recruited for interviews.

Many attempts were made to recruit interviewees from large-scale companies and industry association within all of the industries chosen for this study. However, virtually every organisation that agreed to be interviewed was from the electronics industry, with only a small number from the jewellery industry. The automotive and medical technology industries are therefore not represented in the interview findings, although many of the electronics companies interviewed (both SMEs and large-scale companies) reported supplying parts, components or products to the automotive industry. Support for the study was nonetheless typically very high within industry, as ascertained during interviews with large-scale companies and industry associations, and at presentations of the initial findings by the lead researcher at the Conflict Free Smelter Initiative (CFSI) Meeting in Brussels, 17th of March 2015, and at the 9th ICGLR-OECD-UN GoE Forum on Responsible Mineral Supply Chains in Paris, 5th of May 2015. Large-scale companies and industry associations were also typically very interested in the outcomes of the research, irrespective of whether or not they had agreed to participate during the data collection phase. This suggests that there is a significant disjuncture between the willingness of large-scale companies and industry associations to participate in research of this nature and their desire to benefit from its findings. Moving forward, this disjuncture needs to be overcome to ensure that the experiences of more companies can be represented in future research findings, thus increasing their validity and ultimate utility.

Despite the small sample size for the survey portion of this study, the findings that emerged were chiefly supported by the findings of the semi-structured interviews. This successful triangulation of the survey and interview data suggests that the findings possess considerable validity. Even so, it would be prudent to conduct further research into the topics covered in this study prior to developing policy or industry support based on its findings.

²² Möllenhoff, J., et al. 2014. *Small to Medium-sized Enterprises (SMEs): Uptake, Access and Impact of Certification in the Jewellery Supply Chain*. The Graduate Institute Geneva; Carrigan, M. et al. 2015. *Signalling Change: Jewellery SMEs and Corporate Social Responsibility*. Coventry: Coventry University.

²³ European Commission. N.d. *Opportunity and Responsibility: How to help more small businesses to integrate social and environmental issues into what they do*. Directorate-General for Enterprise and Industry, p.11.

²⁴ For more information on the role of ‘*guanxi*’ within SMEs see: Tan, J. et al. 2008. *Particularistic and system trust among small and medium enterprises: A comparative study in China’s transition economy*. *Journal of Business Venturing*. Vol. 24, pp.544-557.

1.3 Structure of Report

Section 2 of the report contains an overview of the role of SMEs in the electronics, jewellery, automotive and medical technology industries, and the part they can play in responsible mineral sourcing. The findings are analysed in Section 3; firstly those of the online survey of SMEs, followed by the findings of the SME interview portion of this study. The SME 'best practice' case study is then presented. Subsequently, the findings of the large-scale company and industry association interviews are examined, prior to the presentation of the large-scale company 'go early, give support' model of supplier engagement, which is classified as a 'best practice' example. Section 4 presents the recommendations that have arisen from this research, targeted at government, the OECD and industry. These recommendations have been designed to directly and indirectly empower and assist SMEs impacted by the conflict mineral issue to individually meet their obligations in a more efficient and effective manner, and collectively contribute more meaningfully to responsible mineral sourcing.

2 SMEs and Responsible Mineral Sourcing

2.1 Background and Literature Review

SMEs dominate much of the global economy, accounting for 99% of enterprises in the European Union (EU),²⁵ up to 90% of companies in North America,²⁶ and over 97% of enterprises in Asia-Pacific Economic Cooperation (APEC) member economies.²⁷ SMEs play vital roles in the electronics, jewellery, automotive and medical technology industries, performing tasks including processing, part and component manufacturing, product assembly, and, primarily in the case of the jewellery industry, retailing also. Consequently, SMEs can be central to the production and distribution of products containing “conflict minerals”—tin, tantalum, tungsten and gold.²⁸ SMEs’ function in aiding or instigating efforts to identify conflict minerals in supply chains (using existing mechanisms) is thus inarguable. However, SMEs are suspected of having particular difficulties with the implementation of associated reporting and due diligence measures.

Research into the SME experience with conflict minerals and associated reporting and due diligence responsibilities has been extremely limited to date.²⁹ One study has focussed on SME inclusion in the Responsible Jewellery Council (RJC) certification programme (which has conflict mineral provisions in its separate Chain of Custody [CoC] Certification), and another on the experiences of small companies (defined as those with fewer than 500 employees) with conflict minerals due diligence.³⁰ The former study found that some SMEs reported that the RJC certification process was extremely time-consuming, overwhelming, and too complicated for their basic internal systems.³¹ The latter study found that the three most common struggles small companies had with conflict minerals due diligence were:³²

- Lack of information from suppliers;
- Lack of resources;
- Lack of clear requirements.³³

Existing literature on the uptake of other corporate social responsibility (CSR) initiatives by SMEs is larger (although it is still an underexplored area) and enables postulations as to which struggles SMEs could be having with their conflict minerals obligations. It also shows that the challenges experienced by SMEs with CSR have been known and debated for many years. A stakeholder roundtable held in Europe in 2004, which was attended by over 50 industry associations, companies and EU parliamentarians (among

²⁵ European Commission. *N.d. Enterprise and Industry: Facts and figures about the EU's Small and Medium Enterprises*. Accessed April 7th 2015 from http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/index_en.htm. EU member states as of 2015 include: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

²⁶ Miller, M. 2013, July 8. *Small & Medium Enterprises (SMEs) in North America*. Council for North American Policy. Retrieved 18th of May 2015 from <http://conamp.org/2013/07/small-medium-enterprises-smes-in-north-america-factsheet/>.

²⁷ APEC Policy Support Unit. 2013, December. *Policy Brief No.8 – SMEs in the APEC Region*. Retrieved 3rd of June 2015 from http://publications.apec.org/publication-detail.php?pub_id=1484. APEC member states and territories as of 2015 include: Australia, Brunei, Canada, Chile, People's Republic of China, Hong Kong (China), Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, The Philippines, Russia, Singapore, Chinese Taipei, Thailand, The United States, Vietnam.

²⁸ As recognized by the DFA.

²⁹ While the OECD did survey the behaviours of SMEs in relation to which due diligence activities they were engaging in (as per the 3T supplement of the DDG) in its pilot study of the DDG, the study's goal was not to identify the challenges experienced by SMEs. See: OECD. 2013.

³⁰ Möllenhoff, J., et al. 2014; Abrams, F. N.d. *Due Diligence and SMEs*. IPC-Association Connecting Electronics Industries. Powerpoint presentation, slide 10.

³¹ Möllenhoff, J., et al. 2014.

³² In total 54 small companies responded to this survey.

³³ Abrams, F. N.d., slide 10.

others), developed consensus around the following observed factors hindering SME engagement in CSR initiatives:³⁴

- Perceived and/or actual costs (e.g., for verification for big business customers' codes of conduct);
- Lack of awareness of business benefits;
- Conflicting time and other resource pressures;
- More immediate pressures-struggle to survive commercially;
- Lack of know-how and know-who (e.g. to relate to CSR as a mainstream issue);
- Inability to make the business case for engagement in CSR;
- Lack of knowledge on where to find technical support; and
- Being reluctant and too slow to seek external help.

In 2007, a review of the literature examining the prevalence of environmental protection actions by SMEs in the Korean electronics industry identified the following common barriers hindering their engagement on this issue:

- Lack of financial resources;
- Lack of relevant information;
- Lack of human resources;
- Employees' lack of environmental awareness;
- CEO's lack of environmental commitment; and
- Problems of legislative, market and other stakeholder pressures on SMEs.³⁵

In relation to the last point, the study found that the factors that encouraged SMEs to enact environmental protection measures were legislative pressure, business-to-business pressure (from customers), and pressure from interest groups and insurers;³⁶ in other words, factors that carried tangible legal and/or financial consequences or reputational risk for SMEs. Whether the abovementioned disincentives and incentives influence SME compliance with conflict mineral requests and/or obligations, and whether they are being effectively wielded by industry and government will be explored throughout this report.

Contemporary literature has shown that the abovementioned problems still plague SMEs and their engagement in CSR measures; indeed, company size remains the most significant feature limiting the implementation of CSR initiatives. Smaller companies typically struggle to overcome constraints such as insufficient funds and limited knowledge of what is expected of them.³⁷ SMEs also remain less likely to see the benefit of engaging in CSR initiatives.³⁸ This could be a reason why that although SMEs account for almost 50% of business members of the Global Compact, they are also disproportionately more likely to be delisted for failure to comply with its requirements.³⁹ Perhaps the incentives (financial, social) to remain within such programmes are not as tangible to SMEs and compliance therefore drops from their list of priorities. (The differences between how some SMEs in the electronics and jewellery industries prioritise the conflict mineral issue are explored on pages 26-7).

A recent study of micro firms (defined as fewer than 10 employees) and SMEs in the jewellery industry in the United Kingdom's (UK) Birmingham Jewellery Quarter (BJQ) found that their willingness to engage with CSR initiatives was limited by their perceptions of having little ultimate influence over big picture

³⁴ European Multistakeholder Forum on CSR. 2004. Report on the Round Table on 'Fostering CSR Among SMEs'. Retrieved 18th of May 2015 from http://www.crossingguardconsulting.com/wp-content/uploads/2012/06/ms_sme_roundtable_en.pdf, p.9.

³⁵ Kim, N. 2007. *The impacts of Environmental Supply Chain Management (ESCM) on the environmental activities of Small and Medium-sized Enterprises (SMEs): Empirical Study of the Korean Electronics Industry*. Unpublished doctoral thesis. Leeds: University of Leeds, pp.21-5.

³⁶ *Ibid*, pp.18-20.

³⁷ United Nations Global Compact. 2013. *Corporate Sustainability Report 2013*. Retrieved 14th of May 2015 from https://www.unglobalcompact.org/docs/about_the_gc/Global_Corporate_Sustainability_Report2013.pdf, p.7.

³⁸ Inyang, B.J. 2013. *Defining the Role of Small and Medium-Sized Enterprises (SMEs) in Corporate Social Responsibility (CSR)*. *International Business Research*. Vol. 6, No.5.

³⁹ Rasche, A. et al. 2013. *The United Nations Global Compact: Retrospect and Prospect*. *Business Society*. Vol. 52, No.1, pp. 6-30.

problems, and the disproportionate costs they would have to bear in order to reach compliance with existing initiatives. It also found that the complexity of jewellery supply chains and existing inter-industry trust networks meant that tracing suppliers was perceived by these companies as being respectively difficult and unnecessary.⁴⁰

Given the struggles of SMEs to successfully engage in CSR activities, it is unsurprising that national and regional laws and international frameworks dedicated to CSR often recognize their limitations. For example, national legislation on the mandatory reporting of CSR activities is often only applicable to large-scale companies (for example, Denmark,⁴¹ Spain,⁴² UK⁴³). Larger companies in the EU are often required to disclose CSR-related activities that smaller companies are not.⁴⁴ The Global Compact has developed operational guides specifically for SMEs to assist with their adoption and implementation of the 10 principles – an acknowledgement of the unique characteristics of these companies and the challenges they face reaching and maintaining compliance.⁴⁵ The OECD Guidelines for Multinational Enterprises (OECD GMNEs) state that SMEs should observe the Guidelines only to the “fullest extent possible,”⁴⁶ on account of their size and limited resources (compared to their larger peers). A similar concession is also made in the OECD DDG (which is based on the OECD GMNEs).⁴⁷

The presence of this concession in the OECD DDG is interesting when considering that the ultimate goal of some (typically larger) downstream companies is to report that their supply chains are ‘conflict-free’. Some companies seeking this goal may be either directly or indirectly relying on the adequate implementation of the DDG by companies in their supply chains, some of which are almost certainly SMEs, when the OECD itself recognizes the inherent limitations of SMEs in applying the DDG. This would suggest that large-scale companies should not expect to realise responsible supply chains if they burden SME suppliers with an unreasonable portion of the responsibility to identify and manage conflict mineral risks in their supply chains. They should also not expect to reach this goal without the provision of meaningful assistance to SMEs that addresses their (assumed) limitations in this arena. Whether or not SMEs are being burdened with their fair share of responsible mineral sourcing obligations, and/or are receiving assistance of this nature will be examined from page 38 of this report.

Conducting research into the efficacy of SME implementation of conflict minerals reporting and due diligence activities is vital for identifying existing weaknesses that may be undermining the realisation of legitimate responsible mineral supply chains. Investigating how large-scale companies and industry associations have managed reporting and due diligence activities with their suppliers and members is also important to identifying potential success stories in the amelioration of SME limitations. In the EU context, this information is particularly relevant given the upcoming conflict minerals legislation that may include a mandatory reporting scheme for refiners, smelters and importers of 3TG, and manufacturers of consumer goods that contain these minerals. As the “overwhelming majority of affected EU importers (i.e.

⁴⁰ Carrigan, M. et al. 2015.

⁴¹ “Act Amending the Danish Financial Statement Act (Accounting for CSR in large businesses)” [2008]. See: Danish Business Authority. N.d. CSRGov: Legislation. Retrieved 18th of May 2015 from <http://csrgov.dk/legislation>.

⁴² “The Sustainable Economy Law” [2011]. See: Kessler, A. and C. Cuerpo. 2013. *Macroeconomic Impact of the Sustainable Economy Law*. Ministerio de Economía Y Hacienda. Retrieved 18th of May 2015 from http://ec.europa.eu/europe2020/pdf/nrp/nrp_spain_annex3_en.pdf.

⁴³ “Modern Slavery Act” [2015]. See: *Parliamentary business: Bills and Legislation*. N.d. Retrieved 18th of May 2015 from <http://services.parliament.uk/bills/2014-15/modernslavery.html>.

⁴⁴ See: European Commission. 2014, September 29. *Disclosure of non-financial information: Europe's largest companies to be more transparent on social and environmental issues*. Retrieved 28th of July 2015 http://europa.eu/rapid/press-release_STATEMENT-14-291_en.htm.

⁴⁵ UNIDO and the Global Compact. 2007. *The UN Global Compact Guide for Medium-Scale Enterprises (50 to 200 Employees)*. Retrieved 18th of May 2015 from http://www.undp.ru/publications/sled_gc_eng.pdf.

⁴⁶ OECD. N.d. *OECD Guidelines for Multinational Enterprises: Responsible Business Conduct Matters*. Retrieved 18th of May 2015 from https://mneguidelines.oecd.org/MNEguidelines_RBCMatters.pdf, p. 3.

⁴⁷ Maréchal, L. *The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals*. OECD presentation at the Conflict-Free Sourcing Initiative (CFSI) Conference on EU Implementation of Conflict Minerals Legislation, held in Brussels, Belgium on March 17, 2015. Retrieved 18th of May 2015 from <http://www.slideshare.net/EICCoalition/oecd-due-diligence-17032015>, slide 17.

traders, smelters/refiners, and manufacturing companies) are SMEs or micro-enterprises”,⁴⁸ it follows that in order for EU downstream companies to achieve legitimately responsible supply chains an appropriate burdening of SMEs should be clearly stated in the law. Furthermore, efforts must be taken to empower SMEs throughout affected supply chains to adequately fulfil their roles in responsible mineral sourcing. This research goes some way to illuminating what that enablement could look like, how it could be carried out, and by whom.

⁴⁸ European Commission. 2014. Commission Staff Working Document: Impact Assessment: Accompanying the document Proposal for a Regulation of the European Parliament and of the Council setting up a Union system for supply chain due diligence self-certification of responsible importers of tin, tantalum and tungsten, their ores, and gold originating in conflict affected and high-risk areas, p.6.

3 Findings

3.1 Survey and Interviews

The findings from each stage of this study will be presented in the following order:

- Online survey of SMEs;
- Interviews with SMEs;
- SME best practice case study; and
- Interviews with large-scale companies and industry associations.

3.1.1 Online Survey of Small and Medium-scale Enterprises

The online survey of SMEs was split into three sections that contained questions covering the following topics:

- Respondent profiles and general conflict minerals awareness;
- SMEs' experiences with conflict minerals reporting (and non-OECD DDG due diligence activities);
- SMEs' implementation of the OECD DDG.

SMEs that indicated they did not implement the OECD DDG were excluded from participating in the third portion of the survey.

Respondent Profiles and General Conflict Minerals Awareness

As indicated in Chart 1, SME participants in the online survey were primarily from the electronics industry, followed by automotive, medical technology and jewellery. The respondents could choose several answers. The respondents who selected the 'other' option identified themselves as being from industries including defence and machine manufacturing.

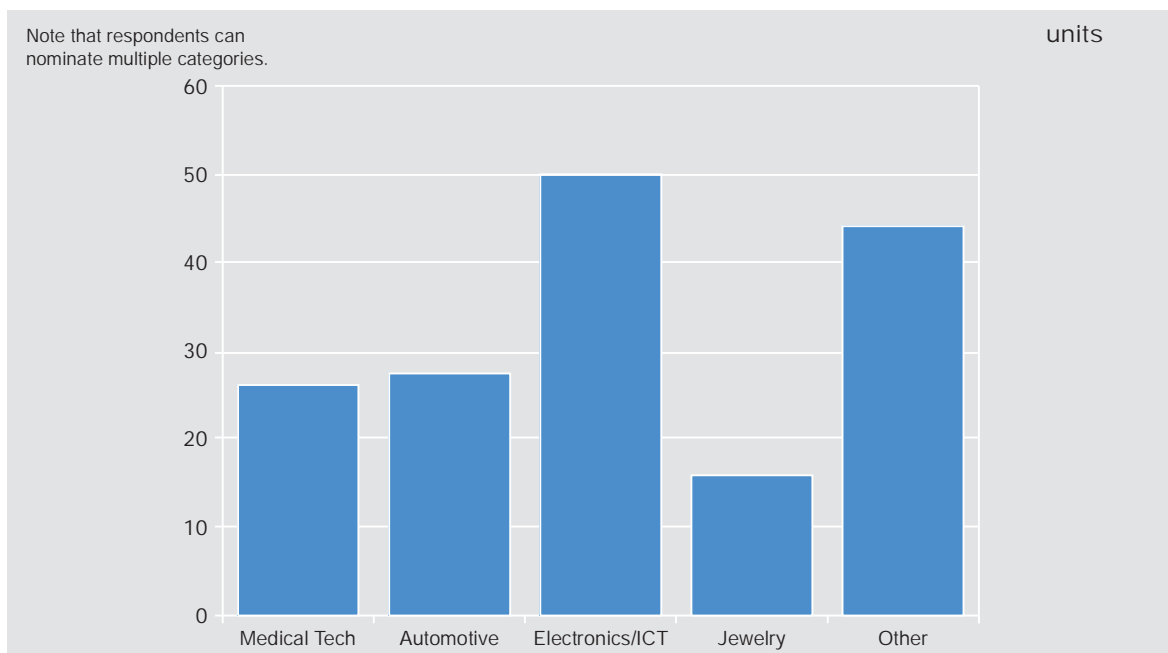


Chart 1: Survey Respondent Industries

The diverse range of industries that survey participants nominated as belonging to suggests that their customer base is also likely to be quite broad. If individual industries develop unique reporting requirements for their suppliers, such as distinctive reporting templates, suppliers may receive many different types of reporting requests. The confusion that can result from this will be further explored on page 33.

The survey results indicated that the vast majority of participating SMEs, 89%, were aware of the link between 3TG and conflict. A smaller percentage, 68%, were aware of the OECD DDG. Of this 68%, 89% were aware that the OECD DDG could be used to manage conflict minerals risks in supply chains. These high levels of awareness of conflict minerals and associated due diligence frameworks amongst SMEs are not supported by data collected in the interviews with large-scale companies and industry associations, as will be explored from page 31. This disjuncture is likely attributable to self-selection bias on behalf of SMEs who took part in the survey and interviews. SMEs would likely have been more willing to participate in either a survey or an interview about conflict minerals if they had a reasonable amount of knowledge of the topic.

SMEs reported having engaged in an array of conflict minerals due diligence activities. As Chart 2 below indicates, the two most common reported activities were both procedural: completing reporting requests, and contacting suppliers about conflict minerals in supply chains. The third and fourth most common activities were, in contrast, both knowledge-building, including: training staff, and participating in conferences, workshops, meetings, and so on. When this finding is considered alongside the common complaint made by SMEs in both the survey and interviews about their lack of knowledge of the conflict minerals reporting process, and their subsequent pressing need to engage in additional training and/or knowledge sharing activities, it supports the argument that some SMEs are having to commence conflict minerals reporting and due diligence activities before they have the skills required to do so efficiently and effectively.

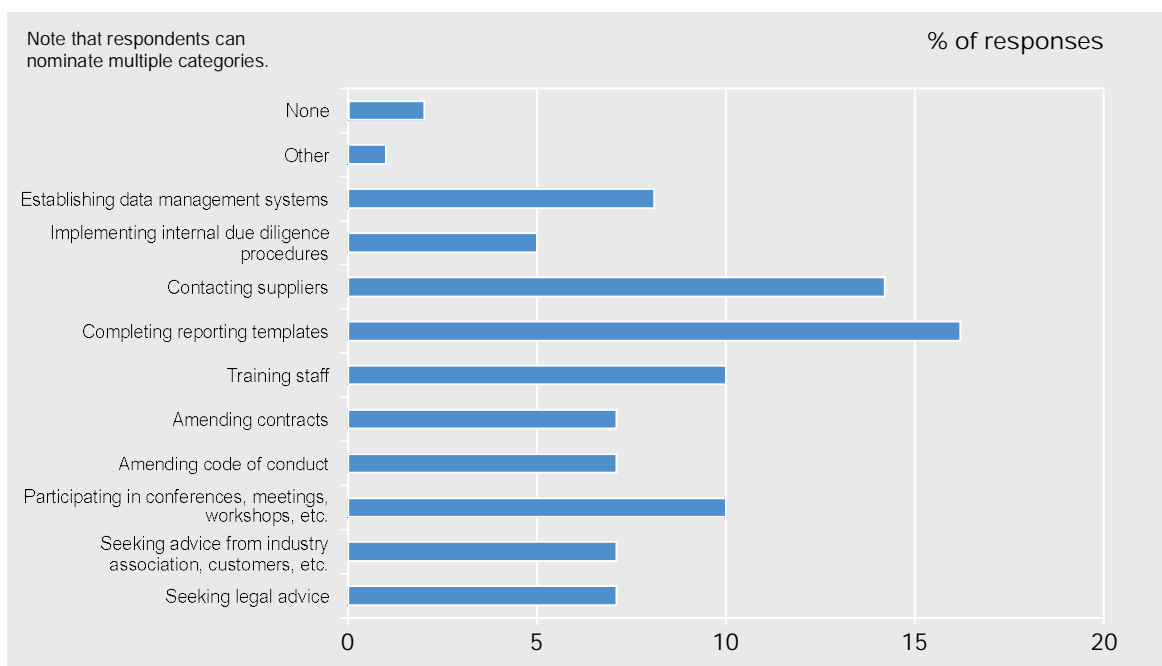


Chart 2: Conflict Minerals Reporting and Due Diligence Activities

SMEs' Experiences with Conflict Mineral Reporting

In relation to conflict mineral reporting requests, 96% (45 respondents) said they had received at least one in the past 12 months. As Chart 3 illustrates, of that group, 64% received a maximum of ten requests, while 23% received between 11 and 25. Only 11% received between 26-50 requests, and only 2% received more than 100. On the aggregate, this finding suggests a fairly high proportion of SMEs have to manage multiple requests, which may consist of multiple different frameworks for reporting. The challenges SMEs can have with managing different reporting templates will be further explored on page 34.

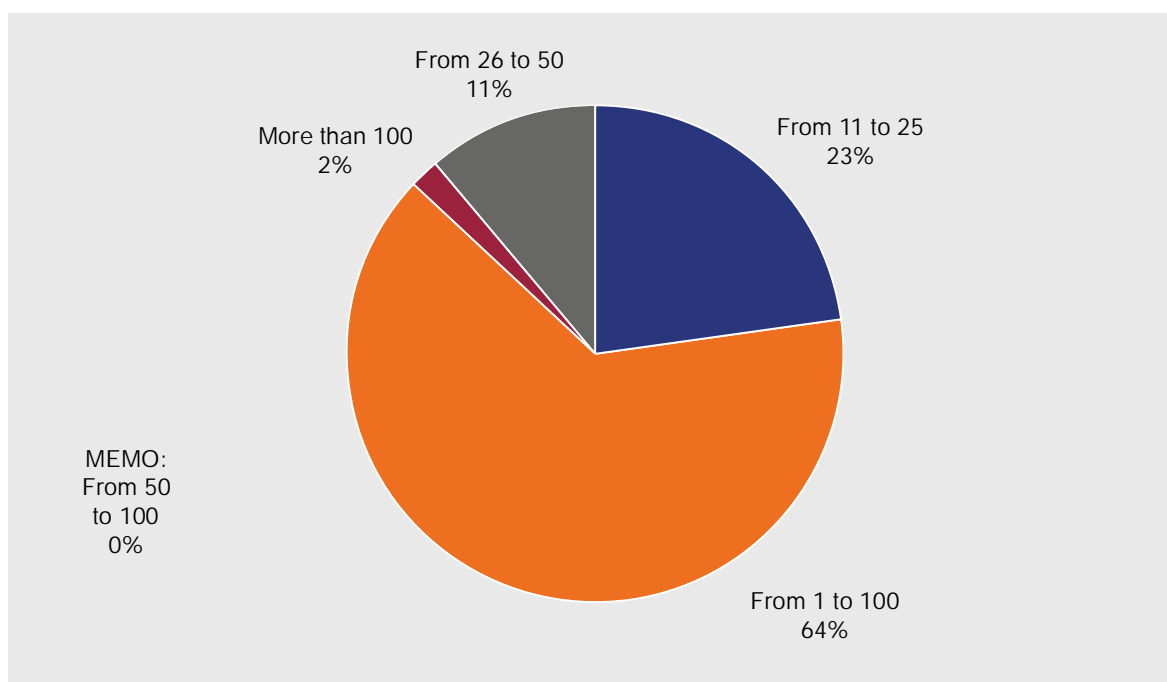


Chart 3 Number of Reporting Requests Per Annum:

As indicated in Chart 4, for 86% of respondents it took less than 5 months to complete their reporting request.

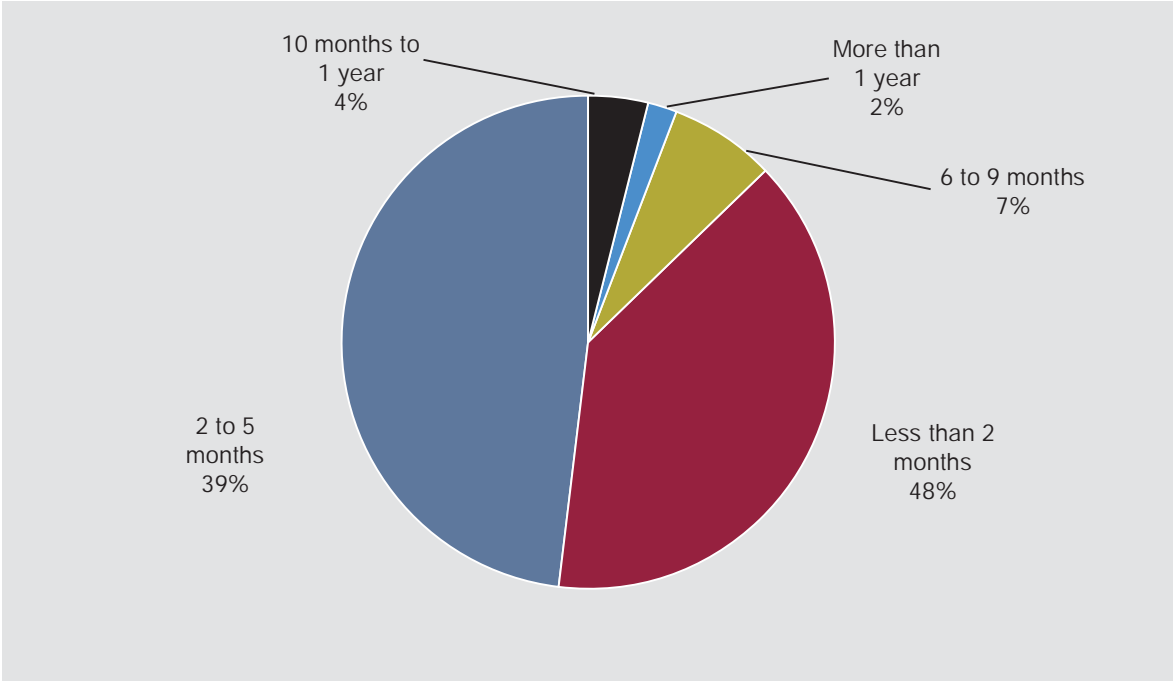


Chart 4: Average Time to Complete Reporting Requests

A majority of surveyed SMEs, 61%, reported experiencing difficulties with the reporting process. As indicated in Chart 5, the two most common complaints were that their suppliers were slow to respond to requests, or were unresponsive. The third most common complaint was that customer timelines for completion were unrealistic.

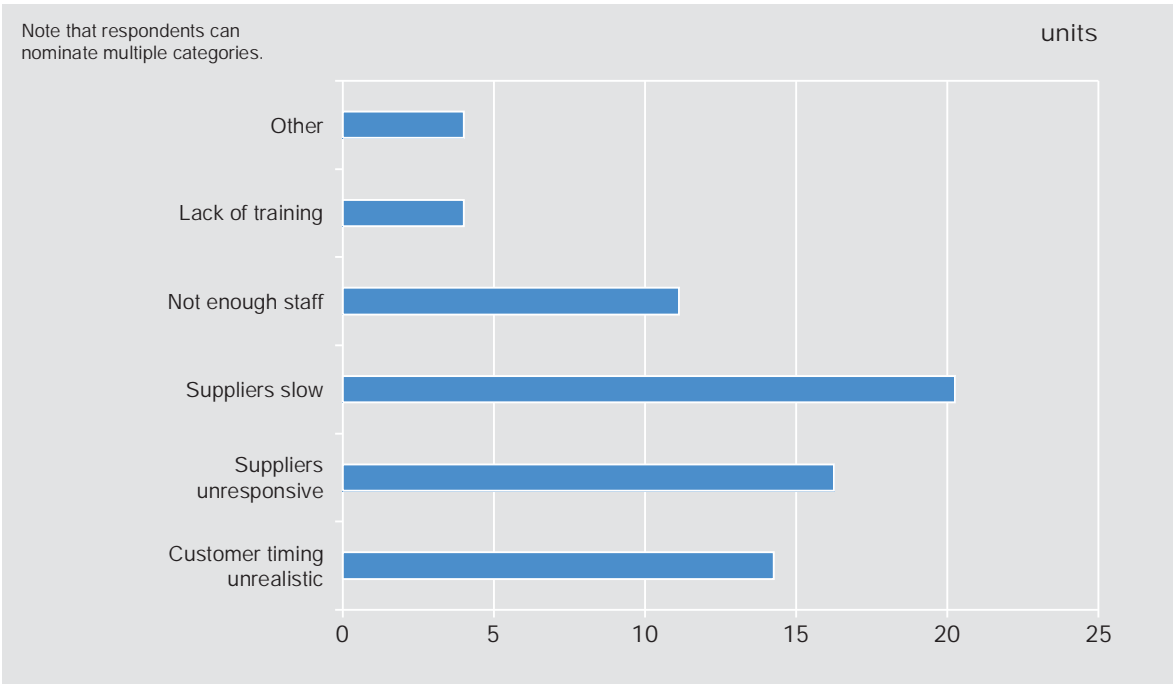


Chart 5: Difficulties with Conflict Minerals Reporting

Some of the comments made by respondents in relation to these three challenges were as follows:

"Difficult as the supply chain is not ready for this and only one supplier can block us in filling out the CFSI completely. It is crazy that there is no lower limit for this policy like you have in RoHS."

"Collecting Conflict Minerals requires extensive labor and lots of time. Some small suppliers are not able to provide the information due to the complexity, going deep down to so many tiers and they either don't have the system implemented for CM or enough staff to support"

"Lots of hours spend on this project, no compensation, no support from the customers. As soon as you are done, you are asked to do it all over again for the next year. You are asked to compile all the supply chain templates into your own and clean it up and contact all the suppliers that do not show in the approved list, or provide email addresses for contacts, etc..etc.. It's not structured correctly."

"we have fought every step of the way with some smaller specialty suppliers who have certain political views and are waiting for the next administration to change the law. However we have to get this information now for our customers who require it, so it is our intention at setting up said suppliers programs and administering it for them."

These quotes demonstrate additional challenges experienced by some SMEs with the reporting process, including difficulties eliciting cooperation from suppliers, the costs associated with reporting activities, the absence of appropriate data management systems within small companies, and the fact that SMEs are often shouldering a significant portion of the burden of addressing conflict minerals in supply chains. These issues will be explored in greater detail in the SME interview section of this report.

The importance of supplier responsiveness, speedy supplier responses and reasonable customer timelines for completion were further supported by the fact that SMEs that claimed to have *not* experienced difficulties with the reporting process stated that these were the top three reasons why, as indicated in Chart 6:

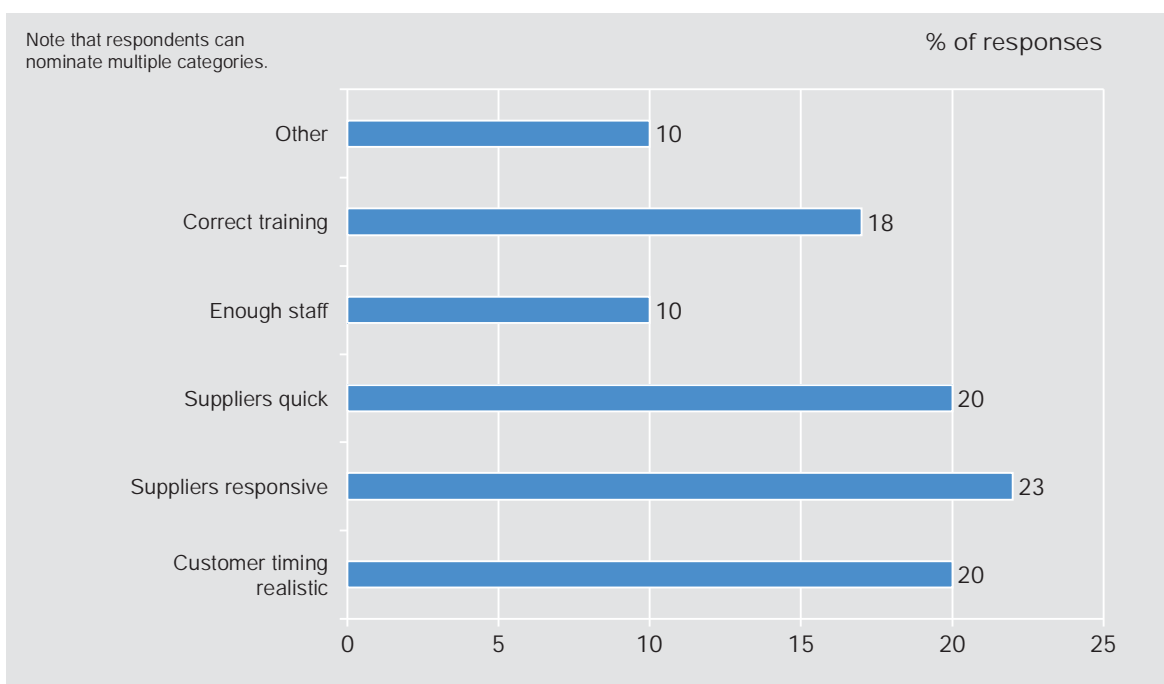


Chart 6: Reasons for Easy Reporting

Significantly, respondents ranked having received the correct training a close fourth. The importance of supplier training, and the positive impacts it can have on conflict minerals awareness, and reporting competency and quality, particularly within SMEs, will be explored in-depth from page 34 of the report.

The survey also asked SMEs to identify which resources they believed could have made their conflict minerals reporting activities more efficient. As Chart 7 indicates, the three most selected were training, more information on what was expected of them, and more staff to carry out reporting activities. These findings again highlight the resource constraints suffered by many SMEs, as well as their training, information and capacity building needs.

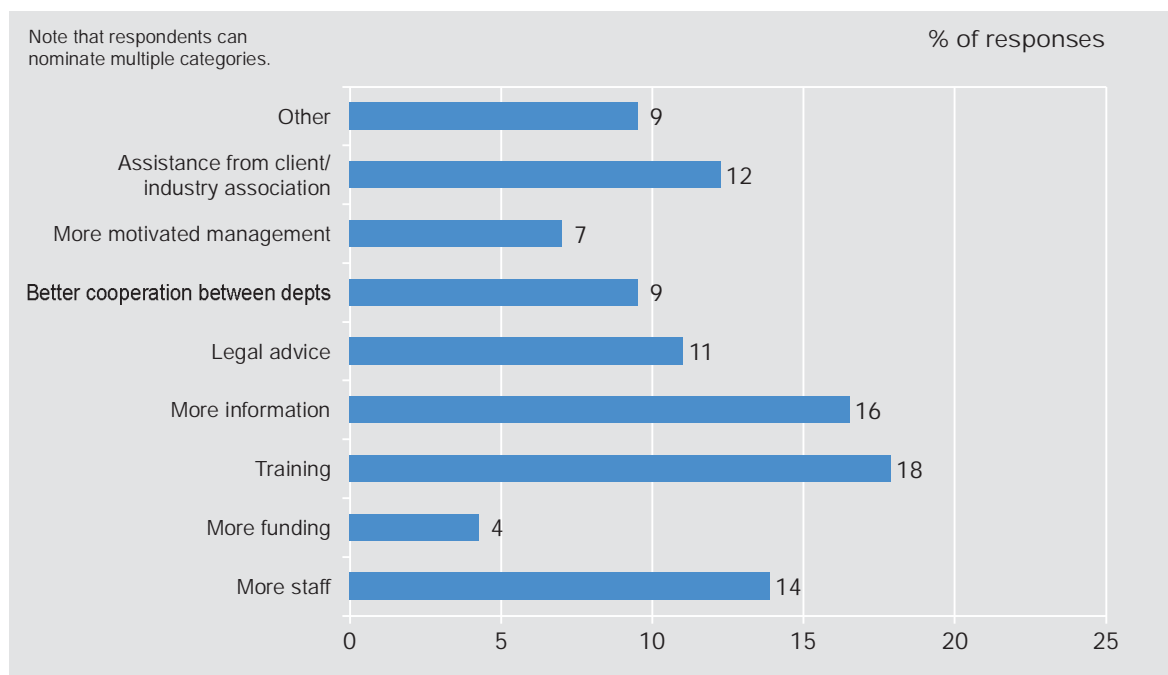


Chart 7: Resources for more Efficient Reporting

In relation to whether SMEs had experienced any positive outcomes as a result of their reporting activities, the option 'None' was by far the most commonly selected by respondents (36%), as indicated in Chart 8. Improved supply chain transparency (23%) and better supply chain management (21%) were the most commonly selected positive outcomes identified by respondents. These findings raise an interesting question as to whether SMEs, and other companies for that matter, directly experience (enough) benefits and/or recognise the benefits they *could* accrue as a result of reporting activities, and how it would be best to communicate these *potential* benefits to SMEs (once they have been identified). This issue has been explored in relation to general CSR initiatives,⁴⁹ but should be examined specifically in relation to the conflict mineral issue.

⁴⁹ Inyang, B.J. 2013.

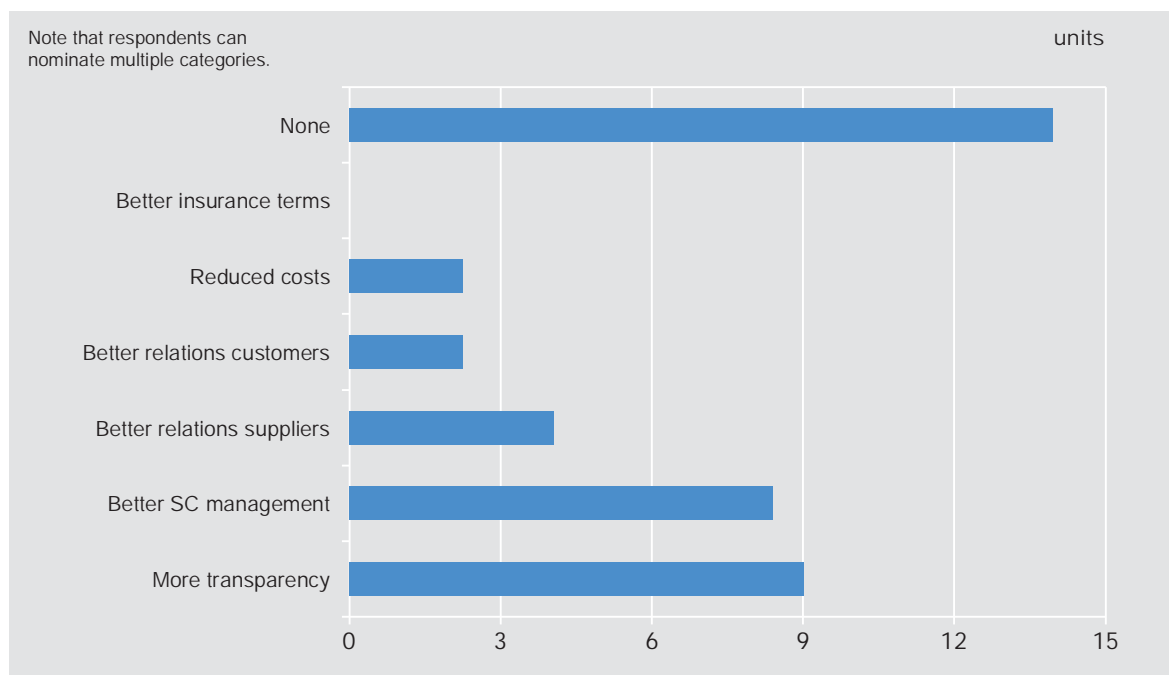


Chart 8: Positive Outcomes from Reporting Activities

Conversely, the key negative consequence arising from conflict minerals reporting activities identified by respondents was increased supply chain management costs (47%), while 33% of respondents claimed to have experienced no negative impacts. The SME interview portion of this report will consider these costs further, alongside the lack of financial incentives that exist for SMEs to engage in reporting activities. Although beyond the scope of this study, further research should be conducted into the budget allocations by SMEs to the conflict mineral issue, and whether SMEs are passing these costs back up or down their supply chains.

Respondents were also asked if they had sought assistance with the completion of reporting requests. Of the 64% of SMEs who claimed to have done so, 57% received this assistance from industry associations, while consultants (15%) and customers (14%) placed second and third respectively, as shown in Chart 9. This suggests that industry associations play a central role in educating and supporting SMEs with this process. It also suggests that consultants are (slightly) more appealing to and/or accessible for SMEs than support from customers, despite the fact that consultants require a concrete financial outlay and SMEs typically have limited resources to dedicate to reporting activities. This finding aligns with the common complaints made by SMEs within the survey and interviews that customers do not give their suppliers enough information about what is expected of them in the reporting process, and often their only engagement with customers is the latter's request for the completion of disseminated reporting templates (as will be further explored on page 28).

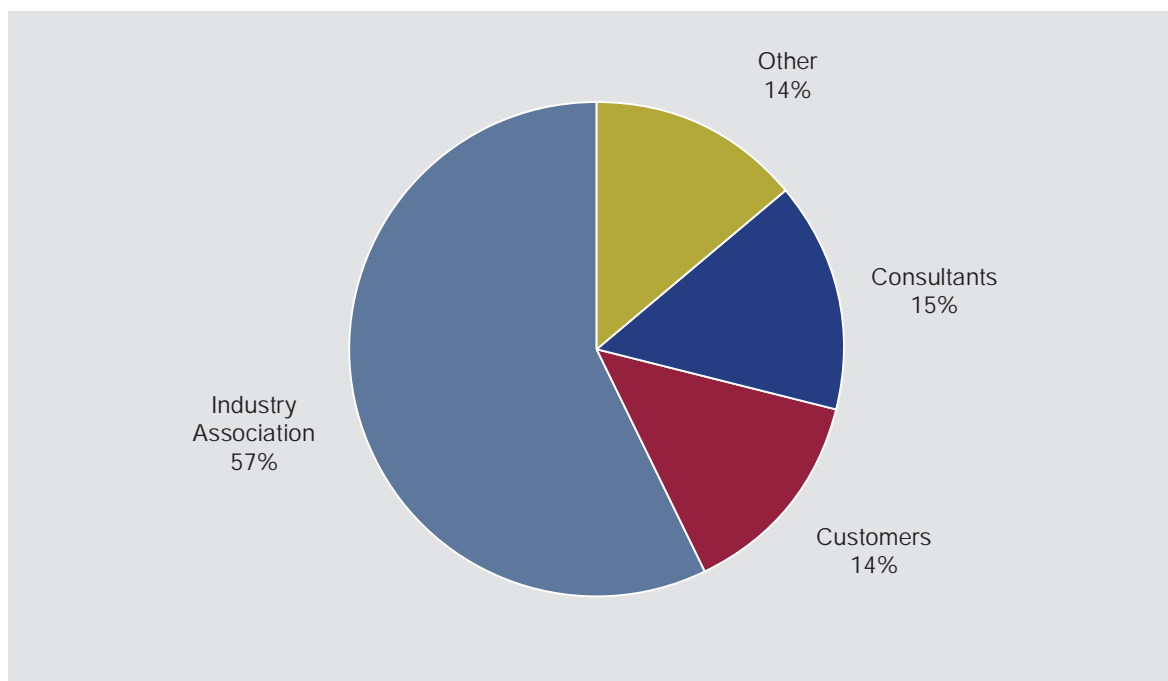


Chart 9: Assistance sought by SMEs

In response to why they needed this assistance from industry associations, consultants and/or customers, SMEs stated that it was required in order to:

- Gain a better understanding of what customers were requesting of them;
- Comprehend the background of the conflict minerals issue; and
- Find tools to help them with the reporting process, such as standardised language for making supply chain inquiries.

This basic knowledge being sought by some SMEs again suggests that some are embarking on reporting activities prior to accruing the information they need to do so efficiently and effectively. This could mean that when SMEs receive conflict minerals reporting requests they may be immediately put in the position of having to play catch-up. This could also cause SMEs to feel overwhelmed by what is being asked of them (which could disincentivise their engagement in these activities at all⁵⁰). Nonetheless, it is a positive finding that the surveyed SMEs are able to access assistance from industry associations, consultants and customers, although improvements to this access are needed, as will be explored in the report's recommendations.

SMEs and Due Diligence Guidance

The following presents the findings of the portion of the online survey that asked SMEs about their experiences with the implementation of the OECD DDG. This is an extremely small sample, and thus the findings below should not be considered as representative but merely as providing some interesting insights into the experiences of the surveyed companies.

Of the eight SMEs that completed the DDG portion of the survey, six claimed that the easiest step of the DDG to complete was step one (Establish strong company management systems), while two claimed that step three (Design and Implement a strategy to respond to identified risks) was the easiest (see Chart 10).

⁵⁰ See: Vittorio, B. et al. 2000. *Environmental Management Systems and SMEs*. Greener Management International. Vol. 2000, No. 29, pp.55-69.

Four SMEs selected step two (Identify and assess risks in the supply chain) as the most difficult, while three selected step five (Report on supply chain due diligence). One SME selected step one as the most difficult.

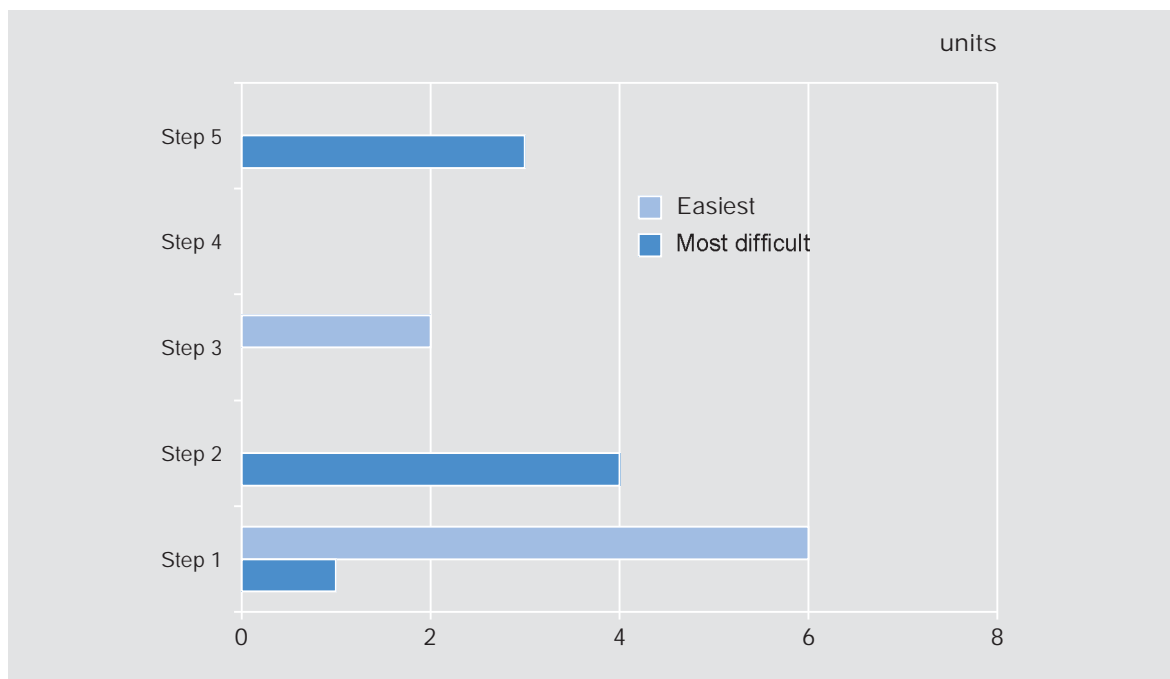


Chart 10: Ranking of the Difficulty of the Five Steps

That step two of the DDG was ranked as the most difficult to implement by the majority of survey respondents aligns with the struggles SMEs reported experiencing in the interview portion of the study with uncooperative or uninformed suppliers and determining the minerals present in their products (which will be further explored from page 22 of this report). If SMEs cannot identify and assess the risks in their supply chains, they cannot fulfil step two.

In the majority of cases, it took respondents less than six months to implement the five steps (or those that were relevant to them), as indicated in Chart 11; remaining respondents took six to 11 months to implement the DDG.

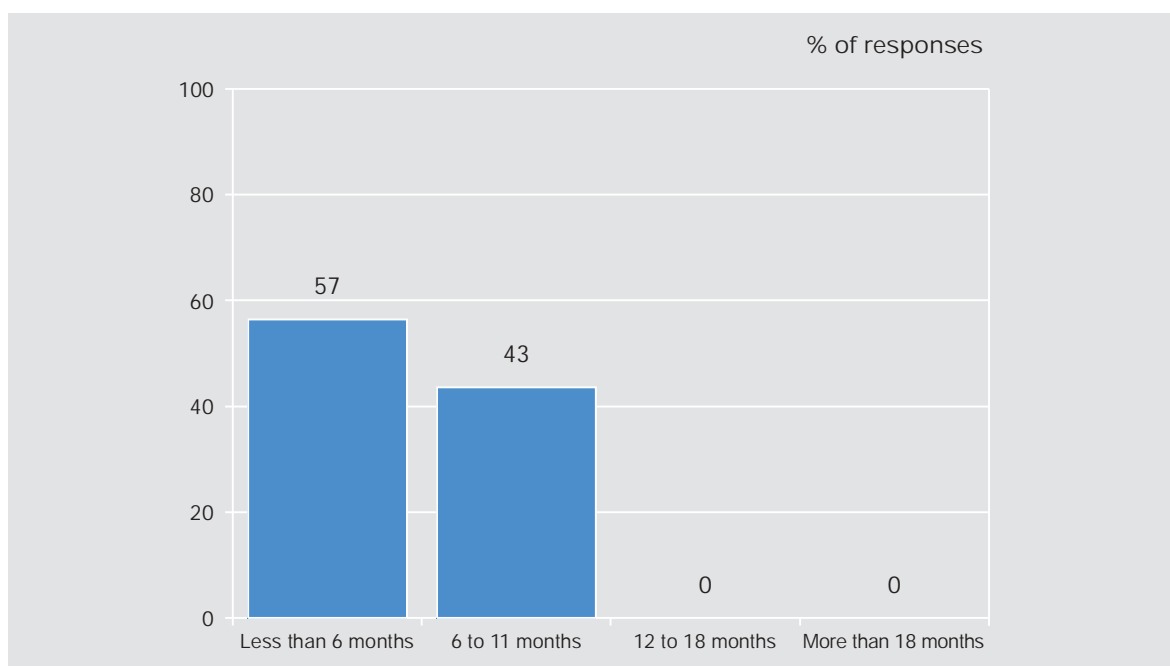


Chart 11: DDG Implementation Timeframe

SMEs were asked what resources they believe would have helped their company to implement the 5 Steps of the DDG more efficiently. As illustrated in Chart 12, three resources tied first place, including ‘additional funding for conflict minerals due diligence’; ‘more staff dedicated to conflict minerals due diligence’; and ‘other’. Unfortunately, despite the requirement to do so, respondents did not identify what constituted ‘other’ resources. Nonetheless, the desire for more staff and funding in the implementation of the DDG aligns with complaints made by SMEs that they lack adequate resources to fully engage in responsible mineral sourcing practices.

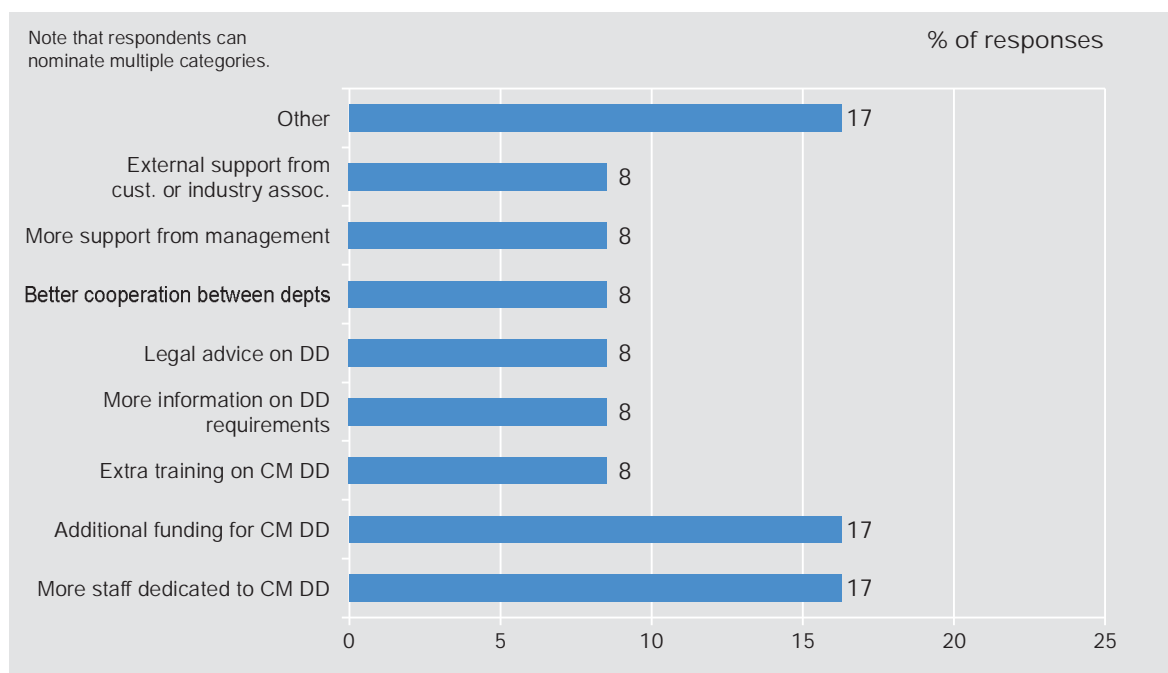


Chart 12: Desired Resources for DDG Implementation

In relation to positive consequences experienced by SMEs as a result of DDG implementation, increased supply chain transparency and better relationships with customers were the first and second most commonly selected options, respectively. Reduced supply chain management costs, better relationships with suppliers and improved management of risk issues all tied for third place, as shown in Chart 13.

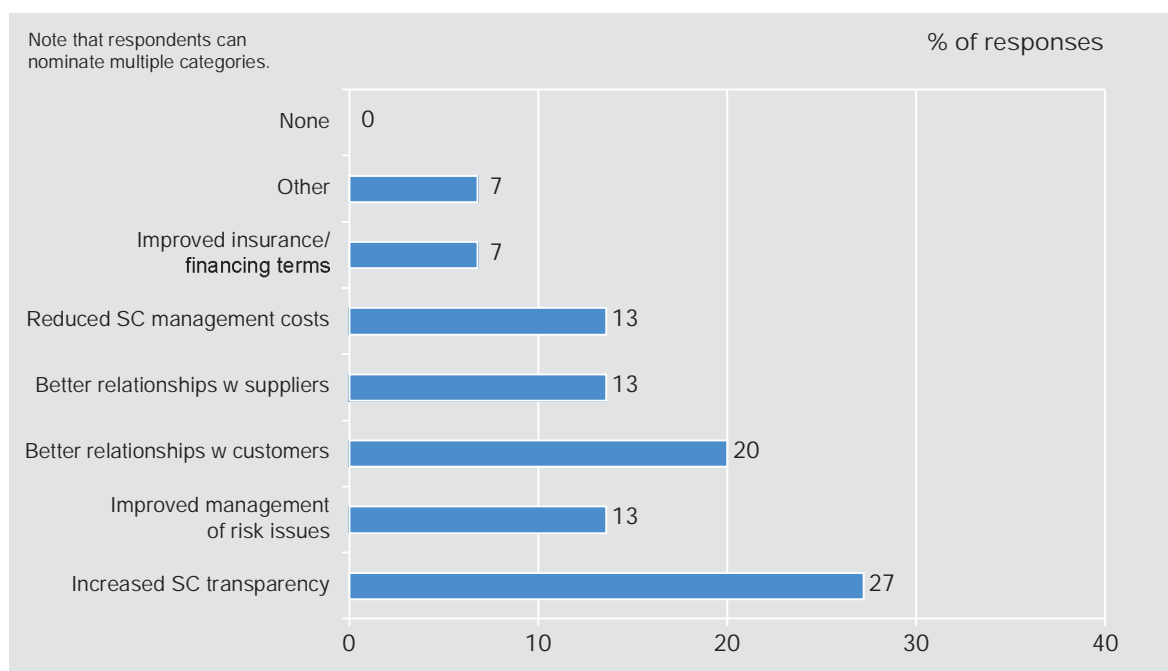


Chart 13: Positive Outcomes of DDG Implementation

In relation to negative consequences, increased supply chain management costs was the most commonly selected by survey participants (40%) followed by changed relationship with suppliers (20%) (see Chart 14). This finding suggests that costs are a key concern for SMEs in both reporting and due diligence activities.

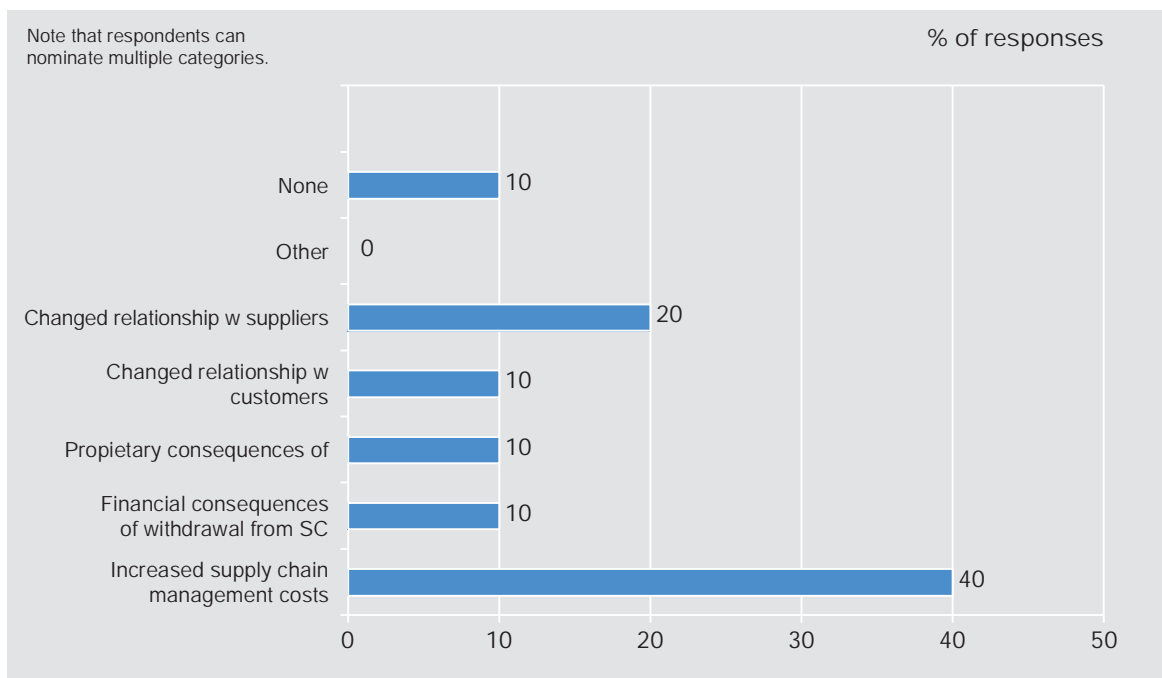


Chart 14: Negative Consequences of DDG Implementation

SMEs were also asked what motivated them to implement the OECD DDG. Respondents ranked the following three reasons as the most influential to their decision to implement the DDG, in order of descent:

- Customer requirement (as a condition of doing business);
- Customer request (to achieve preferred supplier status); and
- Customer recommendation (without commercial consequences).

In contrast, legal obligation, and legal recommendation (without obligation) were ranked as the two least influential reasons why SMEs implemented the DDG. While the number of SMEs who completed the due diligence portion of the survey was very small, the above does suggest that customers could hold significant influence over SMEs and their engagement in conflict minerals due diligence activities (whether formally or informally).

Key Lessons Learned

- *That SMEs are reporting engaging in procedural reporting and non-DDG due diligence activities more so than educational activities suggests that some are having to commence compliance activities before they have the skills required to do so efficiently and effectively*
- *The majority of SMEs receive a small number of reporting requests (<10), which each take on average less than 5 months to complete*
- *The majority of SMEs experience challenges with conflict minerals reporting, including suppliers being slow to respond or unresponsive, and customers demanding reporting be completed within unreasonable timeframes*
- *SMEs that do not experience any problems with the reporting process stated that it was because their suppliers responded quickly, and customer timelines for completion were reasonable*
- *The positive benefits some SMEs experience on account of their reporting activities include improved supply chain transparency and better supply chain management, while the negative consequences include increased supply chain management costs*
- *The majority of SMEs who seek assistance with reporting approach industry associations*
- *SMEs would like additional resources to complete reporting, including more training and staff, and more information on what is expected of them*
- *Step two of the DDG is the most challenging for SMEs to implement, which aligns with the struggles they reported experiencing with communicating with their suppliers*
- *The benefits of implementing the DDG for SMEs include increased supply chain transparency and better relationships with customers, while the negative consequences include increased supply chain management costs and changed relationships with suppliers*
- *Customers wield significant influence over SMEs' decision to implement the DDG*

3.1.2 Semi-structured Interviews with Small and Medium-scale Enterprises

The goal of the semi-structured interviews with SMEs was to acquire a deeper understanding of their experiences with the conflict mineral issue, their reporting and due diligence activities, and any associated challenges and/or successes they had come across. The majority of SMEs did not know about the DDG, or its role in the conflict mineral issue. The interviews thus naturally focused on SMEs' experiences with conflict minerals reporting activities, which were primarily requested by US-based clients, but also, very occasionally, those based in Europe.

The data collected in these interviews was triangulated and framed under identified themes. The four broad themes that emerged were:

- General Challenges;
- Challenges with Suppliers;
- Challenges with Customers; and
- SME Good Practices.

Given the nature of this topic, there is a minor degree of crossover between the four categories.

General Challenges

The SMEs interviewed reported numerous general challenges with conflict minerals reporting, including:

- An inability to trace their supply chains down to the smelter level;
- Conflict between effort and priority;
- Language barriers: information and reporting;
- Lack of correct information on the issue;
- Costs, lack of resources/staff;
- An absence of information from customers making reporting requests
- Disinterested/ill-informed policy makers.

Each of these issues will be explored below. De-identified quotes from interviewees are used when suitable to provide personal insights.

An inability to trace their supply chains down to the smelter level

The complexity of 3TG supply chains was mentioned by several SMEs as being a key challenge to their reporting activities; they often cannot trace their suppliers (via the dissemination of reporting requests upstream) to the smelter level, and such supply chain information has often not flowed downwards from the smelters to their direct suppliers. Those who can identify smelters in their supply chains often can only do so because they buy directly from them:

"It takes about 15 levels from me purchasing a component til I can get down to the smelter position, and in between there are a lot of insecurities. It's impossible for a small company to achieve that [supply chain traceability]. Let's assume that there's 1 gram of tantalum in those capacitors, it's about 6 kilos per year. And the question is, I have to go 15 stages down to get the smelter certificate. At the moment I can't get it—it hasn't flowed up... My general answer regarding conflict minerals: the only thing we can get the smelter certificate for is the solder, and that's because we buy it from the smelter itself. In our case it comes from Chile. But that's the only thing we can trace."

If their suppliers simply declare that their sources are conflict-free, SMEs often struggle to verify this information:

"...we only have confirmation that it is conflict-free from our suppliers, but they do not state the sources."

The specific challenges SMEs reported having with their suppliers is examined in-depth from page 27 of this report.

Conflict between effort and priority

The conflict between the amount of effort it takes for SMEs to perform conflict minerals reporting activities and the lack of priority that some give to this issue was apparent in the interviews. Several SMEs complained that conflict minerals reporting is extremely time consuming (which was supported by the findings from

the interviews with large-scale companies and industry associations), and this is only increasing as more customers request such information. However, the majority of SMEs in the electronics industry that were interviewed for this study said that the conflict mineral issue was not a priority for their company, for one or more of the following reasons:

- Their legal obligations, including REACH and RoHS, take precedence;
- Few customers inquire about conflict minerals;
- Their customers do not pressure them to complete reports; and
- They have only one of the 3TG in their supply chains, and often in extremely small amounts.

The third point suggests that some SMEs feel the conflict mineral issue is of little relevance to them if they have minimal 3TG in their supply chains. This is also likely due to an absence of collective action incentives; their impact, as a latent SME, would appear so minor as to not warrant the effort.⁵¹

"I don't think we can affect this conflict [in the DRC]. There's only 0.5g or 1g [of tantalum] in our products."

Based on these findings, it could be argued that some SMEs, given their limited resources, approach compliance with a triage mentality: that which is legally required is prioritised, that which appears optional—because it is not legally required and/or customers do not insist upon it—is given nil or limited attention until its (prima facie) discretionary nature is challenged. This is not unique to the SME sector; on the aggregate, legal imperatives motivate companies of all sizes more so than those with a solely moral basis.⁵²

In relation to pressure from customers, one SME in the electronics industry openly admitted that it would only respond to the issue of conflict minerals (by completing reporting requests) when its customers demand that it do so. This SME also said that it would not ask its suppliers, who are also mainly SMEs, about the presence of conflict minerals in their supply chains as it knows that they also do not prioritise this issue and therefore do not have the necessary skills or required information; it would take years for suppliers to build capacity in this regard, so approaching them in the meantime would be pointless. Therefore, this SME was acknowledging that pressure from customers was the only thing that would motivate its responses to reporting requests yet failed to link that incentive to its own suppliers, with whom it declined to engage on this issue.

This example highlights a key problem that will be explored further on in this report—that it can take a significant amount of time for SMEs in supply chains to accrue the necessary information and experience to effectively manage conflict minerals reporting and/or due diligence activities. The importance of early engagement with suppliers on the issue of conflict minerals, which this study is terming the “go early, give support” model of supplier engagement, will be examined in depth on pages 40-1.

Language barriers: Information and reporting

The dominance of English-language conflict mineral guidelines, reporting templates and additional information was a key area of complaint for SMEs from non-English speaking countries, for the following two reasons:

⁵¹ See: Olson, M. 1971. *Logic of Collective Action: Public Goods and the Theory of Groups*. Revised edition. Cambridge: Harvard University Press.

⁵² For more information, see: CORE. N.d. *What we do*. Retrieved 3rd of June 2015 from <http://corporate-responsibility.org/about-core/what-we-do-2/>.

- Many SMEs are self-educating on the issue of conflict minerals, and they struggle to find valid, helpful information in their mother tongues; and
- Accurately completing the reporting templates is extremely difficult for staff that lack proficiency in English.

Although reporting templates are available in several different languages (the dominant CFSI Conflict Minerals Reporting Template [CMRT] is available in nine languages), some SMEs argued that the translations are often so poor (akin to a basic Google translate, in some cases) that they have to revert to the English language version despite their being unable to fully understand it.⁵³

Several SMEs did report, however, that the information guides made available by domestic industry associations are published in their mother tongues and are thus very helpful. The important role of industry associations in educating and assisting SMEs with conflict minerals reporting will be considered further in the report's recommendations.

Costs/limited resources/staff

Several SMEs argued that the costs associated with reporting activities, which arise from both direct and opportunity costs, are too high. The fact that SMEs do not get paid to carry out reporting activities by their customers was also a common grievance, suggesting that these companies do not see their role in responsible sourcing as a standard cost of doing business:

"Who is going to pay for our work when we do this?... I wonder what kind of benefit it gives us. It's very difficult."

In addition to the lack of payment, some SMEs also argued that an absence of financial incentives dissuaded them from performing conflict minerals reporting activities, as:

- The prices paid for their parts/components/products do not increase as a result (nor do they enjoy an increase in market share); and
- They do not receive any negative feedback from their customers if they submit incomplete or subpar reports.

The first point indicates that large-scale, consumer-facing companies that wish to eventually use the conflict mineral issue as a competitive advantage by promoting themselves as 'conflict-free' (or as being in possession of 'responsible supply chains') may be advised to ensure that their suppliers are also in a position to enjoy their share of any resultant financial benefits, given their role in enabling that outcome.

The second point suggests that larger companies may be hesitant to give feedback or employ risk management measures to encourage compliance amongst unresponsive or underperforming suppliers. The reasons why this is happening will be explored in the large-scale company interview portion of this study from page 37.

⁵³ The CFSI stated in May 2015 that it has fixed many of these translation issues.

An absence of information from customers making reporting requests

It was commonly reported by SMEs that when their customers make reporting request they do not provide any advice or information as to why the request is being made, or how it can be fulfilled. SMEs were often left to figure this out on their own. SMEs also complained that they rarely receive any feedback from their customers once reports have been submitted, so they remain unsure as to whether they have adequately fulfilled the requirements.

This failure to invest in the initial communication with suppliers is arguably costing companies more in the long run; their suppliers may be ill-equipped to act on requests in an efficient manner, which make force companies to:

- Chase up suppliers for reports;
- Challenge incorrectly completed reports; and
- Request amendments to submitted reports.

Many of these steps would be rendered unnecessary if companies took the time to communicate properly with their suppliers from the outset, and provide with them with the information they need to understand the issue and their obligations. Similarly, companies should provide feedback to their suppliers about submitted reports to ensure they can learn from past mistakes and develop competency. These points will be further explored in the report's recommendations.

Disinterested and ill-informed policy makers

SMEs reported feeling overlooked by policy makers, even if formal commitments had been made to assist SMEs reach compliance with various laws and regulations. There was a perception that governing bodies ultimately do not follow through on these promises:

"...the only assistance they give us is those two lines of text...They put it in the directives and then don't do any work."

There was also a perception that regulations are not fashioned with the realities of affected industries in mind, or with due consideration for how they will impact SMEs:

"The people who make these laws have no clue about how the world looks that makes this production... Politicians don't understand how the industry works, and it's easy to make a paper telling that we should now do this. Even if they say it's only for big companies – big companies have suppliers, who have suppliers, who have suppliers, so it goes down to everybody."

This issue will be explored further in the report's recommendations.

Differences between SMEs in the jewellery and electronics industries

As stated in the research limitations portion of this report, the researchers were unable to recruit any interviewees from the medical technology or automotive industries. However, another key finding that emerged from the interviews with SMEs was the notable difference between how some SMEs in the jewellery and electronics industries view their respective roles in responsible sourcing. Some SMEs from the jewellery industry stated that the conflict minerals issue was extremely important to them, because of reputational risk and customer requirement (as a condition of doing business):

"...we work with leading brands who require maximum transparency regarding purchase of raw materials".

In contrast, as abovementioned, some SMEs in the electronics industry stated that the conflict mineral issue was not a priority, and merely something they did because their customers requested them to.

SMEs in the jewellery industry also largely believed that SMEs play an important role in responsible sourcing and could lose market share if they neglected their responsibilities:

"Yes- not to do that [engage in responsible sourcing] would mean, among the other things, losing market share and going against the social sustainability of private initiative."

(The SMEs from the jewellery industry that were very aware of the conflict mineral issue [and invested in proactively managing it] were typically members of the Responsible Jewellery Council (RJC). This could be interpreted as meaning that socially conscious SMEs are more likely to be members of the RJC, or that the RJC is a strong mechanism via which knowledge about issues like this can be disseminated amongst stakeholders.)

In contrast, interviewees from the electronics industry typically argued that SMEs are mere tiny cogs in a much larger machine, and the focus of this issue should instead be on the importer and/or smelter/refiner level. The reasons for this apparent disjuncture between SMEs in the electronics and jewellery industries are likely numerous; however, five key points stand out:

- SMEs in the jewellery industry are more likely to be vertically-integrated manufacturer-retailers—as consumer-facing companies they deal directly with people asking questions about conflict minerals and therefore face greater reputational risks;
- Jewellery, unlike electronics, is often an emotional purchase, which retailers would not want polluted with a negative narrative like that which surrounds conflict minerals;
- Because of the establishment of the Kimberley Process (KP) in 2003, which aims to minimise the global trade in conflict diamonds, actors in the jewellery industry already have considerable experience managing the conflict mineral issue (albeit in different ways);⁵⁴
- The jewellery industry is acutely aware of the difficulties of shaking the stigma of conflict minerals if you are perceived as being involved in their trade (as the De Beers cartel was with conflict diamonds in the late 1990s⁵⁵); and
- The presence of industry schemes like the RJC may help to educate companies in the jewellery industry about this issue and the importance of managing it appropriately.

⁵⁴ For more information on the Kimberley Process see: Kimberley Process. N.d. About. Retrieved 3rd of June 2015 from <http://www.kimberleyprocess.com/en/about>.

⁵⁵ Global Witness. 1998. A Rough Trade: The Role of Companies and Governments in the Angolan Conflict. Retrieved 27th of May 2015 from <https://www.globalwitness.org/archive/rough-trade/>.

Challenges with Suppliers

A single uncooperative or uninformed supplier can halt a company's conflict mineral reporting (supply chain tracing) attempts. SMEs identified the following challenges they have had with suppliers when trying to collect the desired information:

- Suppliers lack awareness of the conflict mineral issue; and
- Suppliers are uncooperative.

If their suppliers are large companies, SMEs reported that they are sometimes simply ignored, particularly when information about conflict minerals is requested:

"Most of our suppliers of our components are huge companies, and we're a tiny company. It's a general problem. We have components that malfunction, for example, but they never listen to such a small company. The only way is to find another way around, or find another component. The relationship [with us]—they don't care."

SMEs also claimed that suppliers sometimes refuse to disclose information about their own suppliers because they are concerned about being subsequently cut out of the supply chain. Complaints were also made that some suppliers either cannot or refuse to provide comprehensive information about the materials that are in the parts/components/products they sell, which makes identifying the presence of 3TG impossible:

"When we ask suppliers what the content is, I use the Coca Cola example—what's the content of Coca Cola? Well, it's sugar and water and some other secret substances... They don't want to tell us."

In addition to the general difficulties they have communicating with their suppliers, SME interviewees often spoke of the struggles they have determining the presence of 3TG in their supply chains. A key reason for this is that there is no standardised system in place for sharing such information between suppliers and customers, and searching for that information is extremely time-consuming:

"We don't have a system that we can keep track of all of the substances, and that's one of the problems for the SMEs. Because there is no material declaration of every component. On the data sheet it doesn't say that this component contains these ten substances. The big suppliers don't have that on the data sheet at all. I think that in the future you need to specify what the content is."

How SMEs can take steps to institute systems and practices to overcome these limitations will be explored in the SME 'best practice' case study on pages 30-1.

Key Lessons Learned

- *SMEs experience multiple challenges with reporting, including an inability to trace their supply chains down to the smelter level; difficulty accessing necessary information in required languages, and poorly translated reporting templates; a lack of correct information on the issue and what is expected of them; increased costs and few financial incentives to perform reporting; and policy that does not recognise their unique needs;*
- *There is a difference between how some SMEs in the jewellery and electronics industries view their role in this issue – those in the jewellery industry more often embrace their responsibilities, while those in the electronics industry are often less willing to do so;*
- *A lack of general knowledge and capacity regarding conflict minerals within supply chains can impact the reporting process of companies of any size;*
- *Larger suppliers can overlook the needs of their SME customers;*
- *Concerns about proprietary information can discourage 3TG disclosures;*
- *A lack of standardised material declaration practices between customers/suppliers can undermine the reporting process.*

Challenges with Customers

SMEs reported experiencing numerous challenges with their customers in relation to conflict minerals reporting and general due diligence activities. These challenges included the following:

- A lack of assistance/advice/information from customers when they make reporting requests, which prevents SMEs from fully understanding the issue and what is expected of them;
- A lack of feedback from customers once reports have been submitted, which inhibits internal capacity development;
- Receiving impossible requests for 'conflict-free' supply chain assurances; and
- Changes in customers' reporting templates, which renders previously collected data incompatible.

The first three points again indicate how reliant many SMEs are on their customers defining for them the terms of their engagement on the conflict mineral issue. How large-scale companies can embrace this responsibility and improve communications with their suppliers, including SMEs, will be considered on pages 40.

SME Good Practices

The interviews also yielded insights into the successes some SMEs have had with conflict minerals reporting activities, including the following:

- The use of excel spread sheets to track suppliers and components/parts/products was found to be a simple, inexpensive data management tool, which are both attributes that SMEs need for managing this issue;
- Two SMEs claimed that conflict minerals reporting requests had opened up channels of communication between SMEs, enabling horizontal knowledge sharing about how to tackle these tasks (which is particularly important for SMEs in regional locations with limited exposure to customers);
- It was often said by SMEs that reporting activities have become easier in recent times as experience with completing templates has increased over the past several years (one SME in China reported having commenced conflict minerals reporting as early as 2011), again demonstrating the importance of early engagement with suppliers on this issue (as will be further explored on pages 40).

In addition, the existing REACH and RoHS systems were found by some SMEs to assist them with their conflict minerals inquiries:

"We have used the REACH directive to research this information with our suppliers. As a small company, you have to find shortcuts."

SMEs also reported that customers seemed satisfied with the information they could give about conflict minerals in their supply chains, even if it was far from complete. When viewed optimistically, this suggests that companies are allowing time for their suppliers to build capacity and improve (perhaps in part because the SEC is still allowing filers to report 'undeterminable'):

"Customers send us a document saying 'are you compliant with these requirements?' Stop. And then you have to answer the questionnaire. And I'm quite open, I tell them that the only metal I can have control over is the solder, and that's what we have. So far customers have accepted this, because we've responded, and told them about the known and unknown components."

When viewed cynically, this finding suggests that large-scale companies are not concerned about underperformance amongst smaller companies, perhaps because of their typically low-risk profile:

"If you can tell the customer that you're aware of the problem and you've approached it in this way, and it's only a small amount, we're not a big risk factor for them. If you're not open with what you do, some of them may object. But it depends on how important you are as a supplier, and the risk."

It is logical for many large-scale companies to focus their attentions on the reporting and due diligence efforts of their largest suppliers, as will be explored on pages 39. However, the resultant implicit minimisation of the role of SMEs in responsible mineral sourcing ultimately impacts collective efforts to realise responsible supply chains; as previously argued, one uncooperative or ignorant supplier can bring supply chain tracing activities to a standstill. Recommendations as to how governments, industry associations and industry can work to ensure that SMEs are willing and able to perform their vital roles—through their meaningful engagement in conflict minerals reporting and due diligence activities—will be explored in the report's recommendations.

Best Practice SME Case Study

The following is a best practice composite case study, which demonstrates the steps that SMEs can take to improve the efficacy and efficiency of their reporting and due diligence activities. It should not be assumed that these steps would be easy for SMEs to take—the resource and capacity limitations many of them face will not be overcome via their revision of this case study. To implement these recommendations most SMEs will need support from government, industry associations and large-scale companies, as will be explored on pages 42-6.

Table 1 Best Practice SME Case Study

Internal Systems	<p>'Best practice' SMEs have data management systems in place that facilitate the identification and risk-based management of suppliers and tracing of the 3TG present in their parts/components/products. (Note: SMEs do not have to engage with all of their suppliers, but can instead use a risk-based approach as per the OECD DDG). These systems do not have to be expensive or complex: excel spread sheets can do the job, as long as SMEs are dedicated to updating the information whenever required.</p> <p>'Best practice' SMEs task at least one person in the company with the responsibility to manage conflict minerals reporting and/or due diligence activities, and ensure that individual is knowledgeable on the issue. They also ensure that customers know to whom they must direct reporting and/or due diligence requests. Hand-over systems are in place to guarantee that, in the case of staff turnover, responsibility for these tasks is assumed by someone else in the company.</p>
Supplier Engagement and Management	<p>'Best practice' SMEs are proactive on the issue of conflict minerals—they engage early with the suppliers they have identified using a risk-based approach to facilitate awareness and capacity building. When they reach out to these suppliers, they provide them with information about the issue and what is expected of them, or they direct them to publicly available resources (ideally in the supplier's mother tongue), such as those available on industry association websites. They also define the minimum terms of supplier engagement on this issue by including in supplier contracts (or codes of practice) the expectation of cooperation in the conflict minerals reporting/due diligence process.</p> <p>If an identified supplier is not forthcoming in cooperation, 'best practice' SMEs: a). try to persuade the supplier to cooperate by repeatedly engaging with them, and directing them to additional useful sources of information about conflict minerals reporting, as required; or, if this does not work, b). ask their direct large-scale (or larger-scale) customer/s to request cooperation from the supplier, or, c). as a last resort, use risk management measures that may involve counselling an uncooperative/unresponsive supplier that they could be temporarily or permanently removed from a supply chain.</p>
Customer Engagement and Management	<p>'Best practice' SMEs recognise and accept their role in responsible mineral sourcing, and understand the reputational risks they face, and their industry as a whole faces, if this issue is not effectively managed. They respond in a timely manner to customer reporting/due diligence requests. But they also know that they must bear only their fair share of these duties. This means that they request assistance from their customers as needed, such as additional information on what they are being asked to do, assistance to trace complex supply chains, and/or their inclusion in any programmes (including data management programmes) that their customers have in operation.</p> <p>If customers make impractical requests of them, such as the provision of 'conflict-free' assurances, or unethical requests, such as to eschew minerals from DRC, 'best practice' SMEs do not pretend that they can comply, but instead respond that it is not feasible and should not be demanded of them. This in turn (ideally) creates an environment in which the large-scale companies attempting to place an unfair share of the burden of realising responsible mineral sourcing on SMEs, or making unethical requests of them, receive both upwards facing pressure (from their suppliers) and downwards facing pressure (from regulators) to abjure such conduct and assume more of the responsibility themselves.</p>

Knowledge and Capacity Building	'Best practice' SMEs are not entirely dependent on their customers educating them about the conflict mineral issue and their associated reporting and/or due diligence activities. They take the time to remain up-to-date about developments in their industry (via, for example, subscriptions to industry e-newsletters, or signing up for email alerts). They also seek out reliable information resources on conflict minerals (such as those available online); participate in training and/or workshops whenever possible (such as those provided by industry associations); and access other non-governmental and governmental support whenever available.
Peer Knowledge-sharing	'Best practice' SMEs also engage in horizontal knowledge sharing with their peers, whether informally via one-on-one discussions, or formally via participation in dedicated industry forums. This enables SMEs to exchange information on how to best manage reporting and/or due diligence activities with similarly sized companies who have likely faced many of the same challenges and resource constraints.

3.1.3 Semi-structured Interviews with Large-scale Companies and Industry Associations

The goal of the semi-structured interviews with large-scale companies and industry associations was to gain an understanding of the challenges and/or successes these organisations had witnessed their own suppliers or members, including SMEs, experience with conflict minerals reporting and due diligence activities. The interviews were also designed to elicit information about challenges and/or successes large-scale companies had undergone with their suppliers during conflict minerals reporting and/or due diligence activities.

The data collected in the large-scale company and industry association interviews was triangulated and framed under seven broad themes, including:

- Supplier awareness of conflict minerals;
- Characteristics of companies that struggle with conflict minerals reporting and/or due diligence activities;
- Problems experienced by their suppliers/members with conflict minerals reporting and due diligence;
- Challenges large-scale companies experienced with their suppliers;
- Large-scale companies' incentives for cooperation/compliance;
- Types of conflict minerals training provided by large-scale companies to their suppliers; and
- 'Go early, give support' model of supply chain engagement.

Each of these themes is explored below. Quotes from interviewees are used when appropriate to give additional context and personal insights to the issues explored.

Supplier awareness of conflict minerals

The majority of large-scale companies who participated in an interview reported varying degrees of conflict minerals awareness amongst their suppliers. Some reported that a significant portion of their suppliers do not know about the issue at all. This can lead to suppliers incorrectly claiming that they do not have conflict minerals in their products:

"Many suppliers do not know about the issue at all (approximately 20%)... That 20% tends to be the smaller companies. Many of those companies don't actually think that they supply us with conflict minerals, but they do—and that's a key reason why they don't know the topic at all—they don't know that it applies to them."

"The ones that don't know don't even know that they don't know, so they just don't ask about it."

"Another leading complaint is that they don't use conflict minerals, and therefore don't need to do all that work, but that's not true, it's just that they don't know what a conflict mineral is. They don't really know anything."

"Awareness of the conflict mineral issue depends on the maturity level of our suppliers in relation to sustainability. Big companies know this, but the SMEs definitely have a lack of knowledge, and that's noticeable from Tier 2 downwards."

One issue that may be confusing SMEs (and other companies in affected industries) is the fact that the DFA defines conflict minerals as *all* 3TG that emanates from the DRC and adjoining countries, irrespective of whether or not they have contributed to conflict; in other words, the trigger for due diligence and associated reporting is the determination that 3TG in your supply chain has come from the DRC or adjoining countries. In contrast, the OECD DDG refers to 3TG but does not limit itself to the DRC or its adjoining countries. This nuance should be clearly communicated to SMEs.

Other large-scale companies reported that suppliers know about conflict minerals, but lack knowledge of what their obligations are:

"They may have seen news coverage of what's happening in the EU and they may have received reporting requests from US clients, but they may not understand what they're supposed to be doing."

Others stated that their suppliers are aware of their reporting obligations, but are not cognizant of the specifics of what is happening in the DRC. This knowledge gap was not perceived to be an issue by these companies; their suppliers have enough to manage already and compliance is all that matters:

"Suppliers don't care as they have so many other obligations."

Characteristics of companies that struggle with conflict minerals reporting and/or due diligence

The reported characteristics of struggling suppliers/members included:

- Those without customers in the US, which means they have nil or negligible exposure to conflict mineral reporting requests associated with the DFA:

"In our experience, the awareness about the issues of conflict minerals is higher with the larger companies who are listed at the SEC or who are direct suppliers to companies listed at the SEC. The SMEs are much further away from these requirements, and it's not a law that directly impacts them. This is why these issues are largely unknown to SMEs."

- Those that are not SEC reporting;
- Those based in Asia and Europe;
- Those based in regional areas (non-metropolitan), which isolates them from companies that request this information;
- Those that are not required to comply with REACH and RoHS, which means they have little, if any, experience with supply chain due diligence and reporting; and
- Those that receive very few reporting requests.

Some large-scale companies also mentioned several attributes possessed by SMEs that can make it *easier* for them to manage the conflict mineral issue. These included:

- Their oftentimes flat (or flatter) company hierarchies mean that they can respond more quickly to requests as they do not have to seek approval from legal departments, or senior management;
- They can access supplier/smelter information more easily, as they in some cases have less complex (shorter) supply chains; and
- They are more 'hands-on' and therefore often have better knowledge of the materials in their products.

These attributes suggest that large-scale companies should do more to empower SMEs in their supply chains in relation to the conflict mineral issue, as it appears that many may have the structural ability to manage reporting requests in an efficient manner (once their capacity limitations have been addressed).

Problems experienced by their suppliers/members with conflict minerals, reporting and due diligence

In relation to the challenges they had witnessed their suppliers or members experience with the conflict mineral issue, reporting activities and the implementation of the OECD DDG, large-scale companies and industry associations reported that SMEs often suffered from serious capacity constraints, in the form of inadequate funding, manpower and a lack of necessary data management systems:

"...they might have one guy who is supposed to know all of the regulations and everything, chemical, waste, conflict minerals, etc., and it's a lot information to take in. If you're only a few people it's difficult to have the knowledge and expertise."

"For the most part, SMEs lack the resources to even begin engagement on this issue. For step one [of the OECD DDG], which appears so simple, having adequate resources to establish a management team for dealing with this issue is often more aspirational than realistic. Even having a single person dedicated to the issue is really challenging."

"If the due diligence/reporting were costless for the SMEs, all of them would apply it."

"It becomes a data analytics challenge for a company that doesn't have good data enterprise systems on their sourcing rules and part numbers. If they don't have that data infrastructure, it's very difficult to accurately pull that data together."

Large-scale companies and industry associations also spoke of the difficulties their suppliers had engaging with their own suppliers, and managing their complex supply chains:

"The demands put on companies are quite stringent—they must not only fill in CMRTs but also inquire within their own supply chains about conflict minerals. This requires a lot of resources as well."

"The complexity of the supply chain is the key challenge suppliers face in completing the CMRT, specifically for tin. The shortest supply chain for tin would be 3 tiers, and the longest is 7 or 8, possibly more. The tin smelters aren't exactly that forthcoming, partly because a lot of them are based in Indonesia. Trying to sort out who's who in the tin supply chain is quite difficult..."

It was commonly reported that suppliers/members find the CMRT too complicated and confusing:

"The EICC/GeSI reporting tool is not easily understandable, and the questions don't seem logically ordered."

"There are some questions in the CMRT that can trip people up, and there are some of them that are still not 100% understood, particularly questions 5 and 6 (they need to answer yes for both of them, can't answer no and yes)."

The fact that SMEs often receive multiple templates for reporting activities was reported by large-scale companies and industry associations as being confusing for SMEs, making it unclear as to which information they needed to provide:

"They [suppliers] get different types of customer requests as well, and because they don't know about the issue, it's difficult to know one which to choose as the standard framework for their company."

"This [the different questionnaires] can also mean that suppliers find themselves having to find additional information for a client when they thought they had satisfied that inquiry for a different client—they have to re-tread ground."

Several large-scale companies mentioned that a standardised framework is highly desirable to facilitate reporting. However, the fact remains that different companies often want varying degrees of information about their supply chains. Those large-scale companies that wish to utilise a competitive advantage and ultimately promote their engagement in 'responsible mineral sourcing' may request more information from their suppliers than those that just wish to reach compliance. A standardised template therefore may not be feasible, and the focus should instead be on ensuring that SMEs have the capacity to provide the information that each of their customers request.

Large-scale companies and industry associations argued that the absence of concrete guidelines for SMEs left too much room for interpretation of what they need to do to be compliant:

"They [SMEs] need hard guidelines that specify exactly what they need to do and what is expected of them."

"SMEs need something more pragmatic than the 5 steps of the DDG... The DDG is too broad."

This will be further explored in the recommendations on pages 42-6.

It was also commonly reported by interviewees that their suppliers/members had often struggled to get the information they needed out of the metal exchanges from where they sourced their metals:

"Suppliers often report that they buy all of their metals from the London Metal Exchange – those suppliers simply tell the company [the supplier] that they have no ability to find out where the metal originally came from."

"We have customers who don't want smelters in their supply chain that aren't CFSP validated, and have given us until May 2015 for them to be gone. That's a huge challenge for us, given how difficult it is for the supplier to obtain information from its supply chain when it sources from LME."

"We buy our gold wire from two different companies. One is completely conflict free, the other company is based in China and they buy from the Shanghai Gold Exchange. That supplier, when they reported back to us, said that they couldn't get 100% of the information they needed about smelters from the SGE because it just simply didn't provide it. SGE would send them gold without a smelter logo or any details on it, and when requested, the SGE did not want to tell them where that gold came from."

"Some of our suppliers have had problems with getting smelter information out of Korea Bank [gold]"

Given that SMEs in this study complained that they struggle eliciting cooperation from their suppliers, particularly those that are large-scale, it is unsurprising that metal exchanges are also proving to be obstacles in the reporting process. The researchers are aware that the CFSI has ongoing dialogue with many metal exchanges around the world, with the goal to encourage their full cooperation in supply chain tracing efforts.

Additional challenges experienced by interviewees' suppliers/members included the following:

- Language barriers inhibit communication with suppliers and customers;
- Customer timelines for completion that are too short;
- A lack of management attention/interest in the issue of conflict minerals undermines department or individual-level desire to tackle the issue; and
- A lack of necessary support/information/advice and feedback from customers.

These findings largely align with the challenges SMEs reported experiencing with conflict minerals reporting and/or due diligence activities in the survey and interviews, thus triangulating and validating the findings above.

The report's recommendations contain proposed measures for addressing the challenges outlined above.

Challenges large-scale companies experienced with their suppliers

Several of the large-scale companies interviewed complained that they have no way of determining if suppliers are actually carrying out the reporting that they claim to be. Beyond the identification of 'red flags' that indicate when something requires further investigation (such as the address of the identified smelter actually being that of the supplier's local police station), companies argued that they can do very little to verify reports. This was also a complaint of SMEs, which implies that resource constraints are not the only factors inhibiting report verification in these industries.

Other challenges large-scale companies reported having with their suppliers included:

- Suppliers questioning the need to provide requested information, as their other customers are not making the same demands;
- The provision of misleading information in reporting templates;
- Language barriers;
- The difficulty of finding the correct person in the company to send reporting requests to:

"A lot of times we find...it's [the reporting template] not going to the right person and they don't know what to do with it, and they're just sitting on it. And other times it just gets sent into a junk email folder automatically."

- The fact that personnel changes in small companies can result in an immediate cessation of reporting activities, which suggests that there are often not adequate changeover processes in place to ensure consistency.

Nonetheless, all but three of the interviewed large-scale companies indicated that the quality of the reports they had received from all suppliers (in terms of reliability and completeness) had increased, particularly in the past year.

Improvements of this nature were commonly attributed to one or more of the following:

- Suppliers are more experienced with reporting now and are thus more confident;
- The upcoming EU legislation has encouraged companies in some regions to be more cooperative with reporting requests or incentivised them to start engaging with the process; and
- The large-scale companies have helped their suppliers to develop capacity:

"We find that a lot of the SMEs we work with will respond to requests, saying "we got your request, but we're not quite aware of how to go about this, or what is really needed". That was in Year 1, and we worked really closely with them to figure out what needed to be done and how to go about it. But in Year 2 we haven't really seen any of those questions coming back."

This finding suggests that the earlier companies are exposed to reporting requests, the sooner they can be either assisted or incentivised to develop the necessary skills and knowledge to complete them to a high (or higher) standard. The importance of early engagement with suppliers on the issue of conflict minerals (and support of their capacity development) will be further explored on pages 39-40

Large-scale companies' incentives for cooperation/compliance

The tools companies used to encourage suppliers to cooperate in conflict minerals reporting were quite uniform, and included:

- Incorporating reporting obligations into supplier contracts;
- Providing suppliers with advice and information on how to complete reports;
- Asking buying departments to remind suppliers of their obligations if cooperation was not forthcoming;
- Initiating formal escalation measures (phone calls and emails to the suppliers); and
- The use of threats of removal from a supply chain (in extreme cases).

Despite the reported occasional use of threats to replace uncooperative suppliers, several large-scale companies also said that they nonetheless almost never removed a supplier from their supply chain. This was for several reasons, including:

- It is a very big deal to change suppliers in the electronics industry:

"Getting rid of suppliers for non-compliance is a really big deal in the electronics industry, because companies that sell the final product like stability—they're afraid of change, even if it's good change, because it could effect the end product. Any change that takes place can't hurt the customer, but predicting that can be challenging."

- The conflict minerals issue is not taken seriously by the buying department:

"Most of the time the buyer doesn't want to lose his 'precious supplier', also because they tend to have otherwise good results on the supplier risk assessment—the conflict minerals part of that does not have much influence."

- The supplier is too important to the company, and there may not be an available replacement in the required local market (particularly in the case of distributors in Asia):

"getting rid of a distributor prematurely may leave you red-faced, as they may have a monopoly over distribution for that particular part within the region you need it in."

Despite their aversion to using risk management measures with uncooperative suppliers, it was argued by a number of large-scale companies that they will soon begin applying severe consequences to suppliers that fail to abide by their reporting requirements; after a grace period of a couple of years to give suppliers time to adopt and implement the required systems it is now assumed by these large-scale companies that their suppliers have reached the standard where compliance can be expected. However, in relation to SMEs, it is not enough for large-scale companies to simply assume that these suppliers have developed sufficient capacity on their own accord—the incentives for them to do so *do not currently exist* in the industries examined for this study, as the above findings have shown. The best way that large-scale companies can ensure that their suppliers have the knowledge and skills they need to reach compliance—what this study is terming the 'go early, give support' model of supplier engagement—will be examined on pages 39-40.

Types of conflict minerals training provided by large-scale companies to their suppliers

As the findings so far demonstrate, large-scale companies and industry associations are aware of the conflict mineral knowledge limitations negatively impacting SMEs in their supply chains and membership groups. The following demonstrates that many of the interviewed large-scale companies have supplier conflict minerals training programmes in operation, however very few provide this training to the SMEs in their supply chains.

This study identified two different types of conflict minerals training being provided by large-scale companies to their suppliers. The largest brand name companies that are very wealthy, and are being classified as 'Level 1s' for the purpose of this study, usually provide advanced conflict mineral training programmes to their suppliers, consisting of webinars, workshops and resource centres. In contrast, the large, but 'brandless' and not as wealthy companies, classified as 'Level 2s', typically offer basic conflict minerals training to their suppliers in the form of phone or email consultations. Amongst these Level 2 companies, however, some openly admitted that they rely on the Level 1 companies providing more advanced training to their shared suppliers, including SMEs, in order to build their conflict minerals capacity. The Level 2s claim they cannot do this themselves, but their suppliers nonetheless need it:

"We're relying on larger companies in the industry that are also customers of our suppliers to play that role by putting pressure on those suppliers and also providing training to them directly. We can't provide that training ourselves."

"We don't have the resources to train 400 suppliers."

This study found, however, that the majority of Level 1s only offer their advanced training programmes to the largest suppliers in their Tier 1 supply group. According to several of these companies, they provide training only to those companies that supply the most 3TG and/or account for the largest proportions of annual spend (and therefore register highest in risk assessments).

Based on these findings, it is possible to postulate that the companies that receive advanced conflict minerals training are rarely SMEs. Moreover, the basic training provided by Level 2s, in the form of email or phone consultations, also appears to benefit few SMEs. Indeed, this study suggests that *it is unusual for SMEs to be offered any conflict minerals training by their customers*, as one European industry association confirmed:

"SMEs are rarely reporting receiving training from clients with regards to completing reporting templates, etc."

One large-scale company argued that this bias towards training only the largest suppliers is also a result of its smaller suppliers' ephemerality in its supply chain:

"there's no point providing that programme to suppliers who in one year, or in 15 minutes, won't be our supplier anymore. It's a waste of human and financial resources."

Another large-scale company argued that intentionally targeting SMEs in its supply chain for training in the future would only be worthwhile if there is large amount of 3TG in their supply chains and they would thus see the benefit, again suggesting that some SMEs are perceived of as thinking that their relative size limits their responsibility in relation to responsible mineral sourcing:

“For SMEs that only use a small amount of tin solder, for example, targeting them for additional training would be a waste of time primarily because the SMEs themselves would not see the value of the exercise.”

The survey and SME interview portions of this report have shown that SMEs regularly lament their inadequate training, and lack of information about the conflict mineral issue and what is expected of them. Combined with the above findings, this show that there is demand for more comprehensive conflict minerals training for SMEs, from both the SMEs themselves and their ‘Level 2’ customers. But, for the intra-industry providers of training of this calibre – the Level 1 companies – it is, at a minimum, economically irrational to supply it to SMEs in their supply chains as a matter of practice.⁵⁶

SMEs thus seem to be *falling through the cracks*. But could this problem be addressed by simply making conflict minerals training available to more SMEs? A couple of the industry associations interviewed for this study said that SMEs rarely utilise the conflict minerals training resources they have on offer, such as workshops, even when they make up a large proportion of their memberships. This is for several reasons:

- They do not know that the conflict mineral issue applies to them;
 - They have to be at the level of developing their strategy for dealing with this issue in order to be looking for such resources—SMEs that are not so advanced will thus remain on the periphery; and
 - They do not have the available resources to be able to send a staff member to the workshops.
- Recommendations for addressing the obstacles hindering SME engagement in conflict minerals training will be considered on pages 42-6.

‘Go early, give support’ model of supplier engagement

Some of the large-scale companies interviewed for this study reported that their supply chains now experience very few challenges with conflict minerals reporting. This made them outliers in their cohort.

These companies, of which there were three, were found to share two common attributes:

- They had communicated with their suppliers about the conflict mineral issue early—typically around the same time it came to the attention of US regulators (in one case as far back as 2008); and
- They subsequently worked diligently to develop their suppliers’ capacity to investigate their products and supply chains, and complete conflict minerals reports.

These companies had thus made their suppliers aware of the conflict mineral issue and its potential ramifications years in advance of many of their peers, and also ensured that their suppliers had the necessary information and skills to eventually develop sufficient capacity to successfully perform reporting activities. The latter was enabled by the large-scale companies’ provision of training and/or one-on-one consultations to their suppliers, which educated them about the conflict mineral issue, and basic due diligence and reporting activities.

⁵⁶ This could be classified as a case of market failure that requires government intervention.

This approach is being termed the 'go early, give support' model of supplier engagement. The 'go early, give support' companies reported that when they first engaged with their suppliers about the conflict mineral issue, they suffered many of the teething problems currently being experienced by their peers. For example, they had suppliers who:

- Had no awareness of the conflict mineral issue;
- Were reluctant to provide the requested information (for fear of being cut out of supply chains); and
- Required extensive assistance to answer questions about their products and supply chains.

Despite this poor baseline, over time these large-scale companies were able to help their suppliers overcome their knowledge and capacity constraints. They also developed trust with their suppliers that helped to assure them that they would not be cut out of supply chains once the requested information was furnished.

The 'go early, give support' companies were unique amongst the large-scale companies interviewed for this study because they reported that nowadays:

- A large proportion of their suppliers have **high levels of awareness of the conflict minerals issue** (as high as 95%, in one instance);
- Their suppliers submit high-quality reports (in terms of validity and completeness); and
- Supplier size is *not* an indicator of report quality.

The third finding is perhaps the most important, as it implies that if SMEs are *engaged early* on the issue of conflict minerals and *given support to develop capacity*, they will do two things:

- Overcome their limitations (knowledge and skills gaps); and
- Compete with their larger peers in terms of report quality.

Based on their success, the 'go early, give support' adopters are classifiable as 'best practice' examples of large-scale companies. It is arguable that without comparable engagement and support from their large-scale customers, many SMEs will struggle to appropriately engage in reporting and/or due diligence activities.



Figure 1: Best practice 'go early, give support' supplier engagement flow chart

Key Lessons Learned

- Suppliers possess highly variable degrees of awareness of the conflict mineral issue—some have zero knowledge, some know enough to reach compliance;
- Suppliers that struggle with conflict minerals reporting and/or due diligence activities are typically small, located in regional areas, privately held, receive few reporting requests and have no experience with REACH and/or RoHS;
- Some SMEs do nonetheless have attributes that can make their conflict minerals management easier, including flatter company hierarchies and better hands-on knowledge of component/part materials;
- SMEs can suffer from serious resource constraints that undermine their reporting and/or due diligence activities, including inadequate funding, manpower and a lack of necessary data management systems, as well as management disinterest in the issue;
- SMEs need concrete frameworks to implement due diligence – the DDG is too flexible and complex.
- Metal exchanges can lack transparency, which can pose serious challenges to the reporting process;
- Suppliers can be reluctant to engage on the issue, and can provide misleading information in reporting templates. However, the quality of submitted reports has increased in the past two years;
- It is sometimes difficult for customers to find the correct person in SMEs to send reporting requests to, and reporting can suddenly cease in small suppliers with a change in staff;
- Few large-scale companies remove uncooperative suppliers, including SMEs, from their supply chains because it can be very difficult to limit the resultant negative impacts on the product and/or sourcing process. However, some companies are claiming severe consequences for non-compliance will be meted out soon;
- Conflict minerals training is seldom provided by large-scale companies to their SME suppliers, often because they do not rate on internal risk assessments;
- Large-scale companies that engage with their suppliers early on the conflict mineral issue, and help them to develop capacity, can go on to enjoy largely hassle-free conflict minerals reporting.

4 Recommendations

The recommendations that have emerged from the findings of this study are grouped below in accordance with the stakeholders at whom they are directed. The best outcomes for responsible mineral sourcing would arguably be enabled by all of these stakeholders – industry, government, and the OECD – fully embracing their role in the provision of the recommended support measures to SMEs in affected industries.

4.1 Industry

Findings	Recommendations
The large-scale companies that had adopted the 'go early, give support' model of supplier engagement are now finding: high levels of conflict minerals awareness amongst their suppliers; a high quality of submitted reports; and that supplier size has no bearing on the quality of submitted reports. These three features are unique to these 'go early, give support' companies.	Large-scale companies are recommended to adopt this model; early supplier engagement, and the provision of associated training and advisory services (specific to the conflict mineral issue and associated reporting/due diligence requirements) by large-scale companies to their suppliers (including SMEs), enables the former to more efficiently and effectively manage their reporting requirements in the medium-long term, while simultaneously building capacity throughout their supply chains. The findings of this study suggest that the sooner these companies tackle this issue, the sooner they will be enjoying hassle-free conflict minerals reporting in their supply chains.
A key complaint of SMEs in the study was the fact that their customers would make reporting requests but provide them with no advice or information as to what is exactly expected of them and how they should be carried out, and demand unrealistic timelines for completion.	At a minimum, companies making reporting requests of their suppliers, particularly those that are large-scale, should provide them with relevant information and advice (in their suppliers' mother tongues) in order to encourage their cooperation. In the case of smaller companies that cannot afford to draft this text in-house, it is recommended that they direct their suppliers to the websites of industry associations that contain such information.
Some SMEs stated that they have negligible capacity to impact the conflict mineral issue, and thus do not see the point of engaging in the process	Of the SMEs that are aware of the conflict mineral issue and their role in responsible mineral sourcing, they are encouraged to seek out opportunities, whenever possible, to improve their overall knowledge, and reporting and due diligence capabilities. This could include requesting training or consultations from customers, joining industry associations and attending workshops and training sessions, promoting horizontal knowledge sharing within their peer groups, and requesting support and assistance from local government and/or business associations. Furthermore, they are encouraged to refer to the best practice case study outlined on pages 30-1 of this report.

4.2 Industry Associations

Findings	Recommendations
SMEs often possess highly variable degrees of knowledge of the conflict mineral issue and what is expected of them.	Industry associations are encouraged to provide a full spectrum of training options to SMEs, including entry level courses that cover the basics of conflict minerals and associated reporting and due diligence activities. Support for SMEs to enable their utilisation of these opportunities is explored below.
A common complaint made by interview and survey participants was that existing reporting templates are often excessively complex, difficult to follow and not logically ordered. The translations of the templates were also often said to be quite poor. Companies also reported that suppliers can receive many different reporting frameworks, which can be confusing/time consuming.	<p>The industry associations/organisations responsible for these templates are encouraged to:</p> <ul style="list-style-type: none"> • Liaise with key stakeholders (including SMEs and large-scale companies) to conduct a thorough review of the content, scope and structure of their reporting templates, with the aim to identify and address key areas of concern and ensure the process is easier for all companies moving forward; • Ensure that translations of reporting templates be carried out only by certified translators. • Consider opportunities for the alignment of reporting templates, to standardise reporting wherever possible.
Many SMEs are self-educating about the conflict mineral issue and associated reporting and due diligence activities, but many also complain that they struggle to find reliable information in their native tongue	Industry associations in each country housing industries affected by associated laws should ensure that they have sources of accurate information available on their websites for SMEs to access (and share with their own suppliers as necessary).

4.3 OECD Secretariat

Findings	Recommendations
<p>A common complaint that emerged throughout this study was the fact that the OECD DDG is too flexible for SMEs to implement effectively; they instead require concrete recommendations as to what they need to do to adopt and implement the guidelines and reach compliance. The expectation that SMEs adapt the DDG to their size, as the document recommends, may also confuse and overwhelm them.</p>	<p>To overcome these challenges and increase the penetration of the DDG in the SME sector it is therefore advised that the OECD incorporate into the DDG (or surrounding literature) a best practice example of an SME adapting the DDG to its size and risk profile. The OECD could also develop a Frequently Asked Questions (FAQ) hub on the DDG's adaption by SMEs, made available on its website (in different languages, if possible).</p> <p>Although SMEs vary greatly and may not be able to copy a model directly, this information would provide a helpful reference point. Included in this information should also be a step-by-step guide for how SMEs can independently adapt the DDG in accordance with their own size and risk profile. This information should answer the following questions:</p> <ul style="list-style-type: none"> • "What is the basis upon which the 'reasonable' adaptation to the DDG is made?" • "What determines if how an SME is implementing the DDG is reasonable?" • "What are must-haves and what are nice-to-haves in the process?" <p>In order to have an internationally agreed understanding of what is expected of SMEs the OECD is encouraged to develop this best practice example and FAQ hub in cooperation with stakeholders and relevant policy makers.</p>
<p>SMEs often do not see the benefit of engaging in CSR activities, including, as this study has shown, those associated with the conflict mineral issue. Compounding this is the fact that there is a dearth of research into the benefits companies can gain as a result of these activities.</p>	<p>It is advised that the EU, with the support of the OECD and all other relevant stakeholders, do the following:</p> <ul style="list-style-type: none"> • Initiate research that identifies the benefits companies (of all sizes) have enjoyed as a result of their reporting and/or due diligence activities (considering costs vs. benefits also); and subsequently • Consult relevant stakeholders to determine how best to communicate to SMEs, and other companies, those benefits (which could include: increased supply chain transparency, better relationships with customers, competitive advantage, improved supply chain management, and better risk management). <p>Given that SMEs are a difficult to survey and research fatigue is a possibility, it is recommended that this research be amalgamated with research into general CSR benefits accrued by such companies.</p>

4.4 National/Local Governments

Findings	Recommendations
<p>The limited engagement of SMEs with conflict minerals training programmes was found by this study to have multiple causes: some SMEs are unaware that the conflict mineral issue applies to them and do not seek out training opportunities; others find the training programmes on offer too advanced for their own needs; and others cannot afford to send a staff member to workshops. It was also found that SMEs are effectively falling through the cracks of intra-industry training programmes.</p>	<p>Governments should provide support to SMEs to understand the conflict mineral issue, reporting/due diligence activities, and their role in responsible mineral sourcing. They should also provide support to organisations, like industry associations, to assume this role, or expand their existing offerings. Governments should:</p> <ul style="list-style-type: none"> Provide assistance to existing or new entities that support SMEs to enable their development of general and targeted conflict minerals information material (ideally in multiple languages), develop new conflict minerals training programmes for SMEs specifically (when currently lacking) and provide their training to more SMEs; Make available (financial) incentives to SMEs to enable their attendance at training programmes run by industry associations (and others).
<p>SMEs are often isolated from their peers and/or customers, particularly those SMEs that reside in regional areas. This can limit their exposure to developments happening within their industries and prevent horizontal and vertical knowledge sharing, including about the issue of conflict minerals.</p>	<p>Governments should assist/encourage relevant bodies—chambers of commerce, business associations, and so on—with the establishment of regional forums that bring SMEs together (either in person or virtually) to enable knowledge sharing and peer networking. Existing regional forums could also be built-upon to include the conflict mineral issue in their scope. Industry associations with regional offices should also be incentivised to participate in such schemes.</p>
<p>A key finding of this study it is that some companies believe conflict mineral laws have not been fashioned with the realities of SMEs in mind. It also discovered that some large-scale companies are placing unreasonable demands on their suppliers, including SMEs, to ensure that their supply chains are 'compliant' (at least, prima facie) with legal requirements. These demands include, for example, impossible 'conflict free' supply chain assurances, and the tracing of 15+ tier supply chains. Some large-scale companies thus appear to be attempting to 'pass the buck' on this issue.</p>	<p>Laws (such as the upcoming EU legislation) that either recommend or require the implementation of the DDG can play an important key role in ensuring that companies (particularly SMEs) are tasked only with their fair share of reporting and due diligence obligations by clearly stating that heavier burdens must be borne by large-scale companies in the performance of these activities (ideally after impact assessments of the law/s on the SME sector have been carried out). This could incentivise large-scale companies to take on more responsibility in both the tracing of their supply chains, and in helping their suppliers, including SMEs, to develop capacity in this arena.</p> <p>The implementation of conflict mineral legislation by SMEs should be considered more thoroughly by policy makers (e.g. with targeted impact assessments or the provision of targeted advice for SMEs in alignment with the OECD).</p> <p>A grievance mechanism could be established by governments which enables SMEs to lodge complaints when they believe they are being burdened with excessive requirements by their customers, or if unreasonable 'conflict-free' or 'Africa-free' assurances are being demanded. Appropriate processes for investigating and managing these complaints would also need to be developed.</p>

Findings	Recommendations
<p>It is unlikely that many SMEs can access affordable bespoke legal and technical advice on their reporting and/or due diligence obligations, due to their significant resource constraints. (Industry associations typically cannot provide legal advice to companies.) This lack of knowledge is likely deterring engagement on this issue and undermining reporting and due diligence efforts.</p>	<p>It is recommended that governments spearhead initiatives to provide SMEs with hotlines and resource centres that enable them to access personalised, reliable advice about these issues free of charge.</p>

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