

Artisanal Diamond Trading Schemes

Lessons from the Peace Diamond Alliance Co-ops in Sierra Leone

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Presentation to Workshop: developing a roadmap for a
supply chain of artisanal diamonds from Africa

Tiffany & Co. Foundation, New York, 12th December, 2011



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Today

- Sierra Leone at a Glance
- Overview of interventions
 - Diamond Sector Reform Programme
 - Peace Diamond Alliance
 - Integrated Diamond Management
- IDMP in theory and practice
- Positive Outcomes
- Problems
- General lessons
- Lessons for PRADD



Sierra Leone

- Former British colony
- Independence 1961
- Civil war 1991-2002 – ‘conflict diamonds’
- 177/177 of HDI (2008); now 180/187 (2011)
- GDP/capita is \$734 (2009)
- Rapid progress but many challenges remain

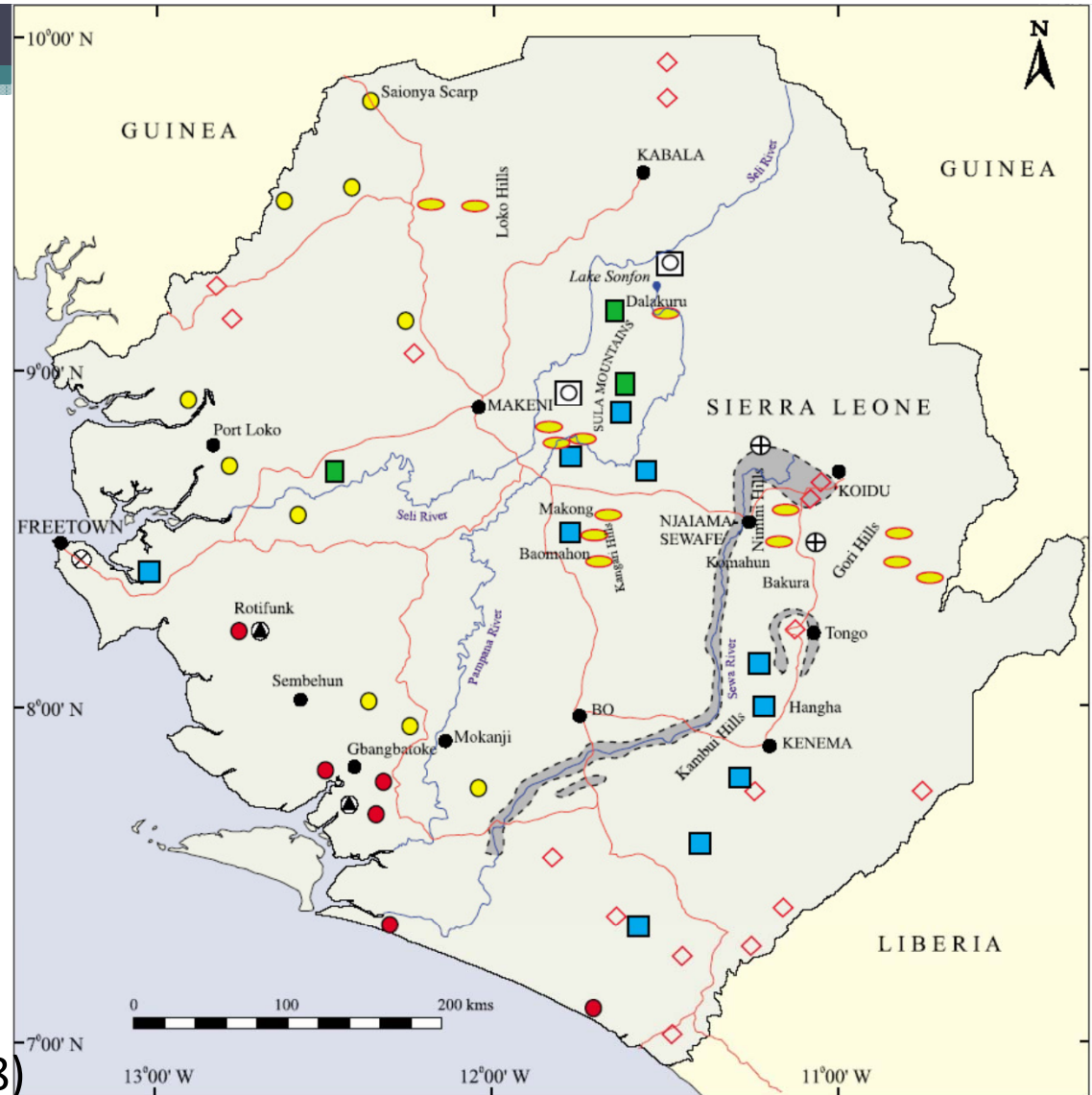


Map from FESS, 2007

Photos © Estelle Levin, 2004

Sierra Leone's Diamond Industry

- Since 1930 (> 80 yrs!)
- 1% country diamondiferous
- Diamond exports
 - 2007
 - \$141m (1% of global)
 - 600,000 carats
 - 2010
 - \$106m
 - 437,000 carats
- 59% Exports (2009)
- Artisanal
 - 100% production (2004)
 - 81% production (2007)
- 50% artisanal mining illegal (2008)
- Declining artisanal sector
 - Dematerialisation
 - Rapid industrialisation



Graphics: ACA Howe. Provided by Mano River Resources Inc.



What was the Diamond Sector Reform Program?

- DoS and USAID funded programme
 - Diamond Policy and Management (DIPAM) led to...
 - The Peace Diamond Alliance (PDA)
 - **Integrated Diamond Management Program (IDMP)**
- Investment of \$6.5m over 8 years (1999 to 2007)
- Diamonds *for* peace and security, not for money laundering, terrorism, crime
- Making the sector RATIONAL, GOVERNABLE, FORMAL
 - Participatory governance
 - Rationalising the sector
 - Upping the stakes in formal mining
 - Decriminalising the sector
 - Improving surveillance
 - Improving discipline

What was the PDA?

- Multistakeholder, multi-spatial, participatory structure for more effective industry governance and surveillance
 - Two –Kono & Tongo Fields
 - Industry, community, government
 - Functions:
 - Promote transparency, responsibility, accountability in the sector
 - Speaking local realities to national policy-making
 - Communicating national / statutory demands to local levels
 - Forum for decision-making and dispute resolution
 - within community
 - between community and third parties, e.g. national authorities; LSM
 - Empowering communities to play a greater role in managing their resource
 - Establish self-regulation through the PDA Code of Conduct
 - Vehicle for training and capacity-building



What was Integrated Diamond Management?

- IDM programme: 3 components
 - Financing
 - Buying
 - Traceability (Earth-to-Export)
- Operationalised through the PDA cooperatives.
 - PDA provided code of conduct, monitoring, multistakeholder oversight and dispute resolution
 - PDA provided training
 - Business management
 - Responsible mining (didn't happen until year 2)
 - Diamond identification, classification, valuation (support from De Beers)
 - How to be co-operative
 - Rationale for cooperatives:
 - Rationalising artisanal production
 - Providing opportunities to youth
 - Bypass the middlemen
 - Empowering diamond diggers towards financial independence
 - Higher prices by shortening supply chains
 - Demonstrating that ADM are credit-worthy
 - Encouraging self-policing to prevent theft, smuggling and increase formalisation

IDMP in Theory and Practice

Component	Concept	Practice
Term	2 seasons	1 season (2005)
Sustainability	After 2 seasons	LOSS making: \$55,000 invested → return of \$4,400
Finance	Revolving Loan Fund (\$522,000) Funded by USAID Managed by Rokel Bank	International 'investors' Financing came late
Financial management	By the co-operatives	By the IDMP secretariat
Market	Open	Closed
Marketing	Auctions every 2 weeks International buyers would fly in	No auctions held – inadequate production Diamonds 'sold' directly to investors
Price	Fixed at 90% Antwerp price - costs 50% of value to stay with co-op at point of sale; balance sent once diamond sold	Poor quality (\$72.74 / carat) 320 stones totalling 60 carats
Traceability	Multiple monitors – co-ops members, MoM, PDA, Global Witness Diamonds bagged and sealed at mine on day Bags labelled (digital photo of contents; info on mine; gang & miner responsible; carats and no.) Bags stored in safe deposit box at Rokel Bank in Koidu	
Co-operative Selection	Standard selection criteria	Discretionary selection (5/35)
Co-operative Structure	50-70 people 10 member exec committee, democratically elected Profits attributed based on shares	Nothing stipulated on internal structure (financial management, decision-making elections, administration)
Co-operative Functionality	Support & daily / weekly payment to diggers, bonuses	Some diggers not paid Gerentocratic governance

Positive Outcomes

based on evaluation with co-operatives

- Short-term benefits to co-operative members:
 - Access to employment
 - Income for youth & women providing support services
 - Access to proper medical care
 - Improved social status and dignity amongst members
 - Wealthier households able to invest in children's education, rehabilitation of houses, purchase of consumables

BUT the investors made a loss! This model was not sustainable!

But some of its benefits might have been...

- ...Long-term benefits to co-operative members:
 - Some co-operatives became self-sustaining by investing in agriculture and gold mining
 - Structures remained in place by 2008 (Transfair USA research)
 - Became units for other investment and development activities:
 - Building a school, HIV sensitisation, volleyball court, project proposals to promote women's work opportunities

Problems

Delays... Fickle donor 14 months to contract
SHORT-TERMISM Environmental Assessment
Late start, early rains, deep gravel → **COSTS**
A co-operative or a traditional mining organisation?

High EXPECTATIONS! BENEFICIARY not PARTNER? **Cultural incompatibility**
no sense of responsibility to investor with co-operative principles
gerentocracy, patriarchy, elitism
weak capacity POVERTY THEFT
limited understanding Inflexible financial management
alien concept

Replacing known with unknown 'supporters' **NO TRUST** Inadequate funds
Wrong Assumptions Bad eligibility criteria
Wrong Premise **COMPLEXITY** **PATRONAGE** **NEPOTISM** **CORRUPTION**
Wrong Place Lack of mining expertise Management issues

UNVIABLE deposits Poor monitoring Poor communication

Lessons: Concept

- **Run a mine-to-market programme as a *commercial enterprise first and development project second***
 - But ensure there is a 'pilot implementation phase' where one expects to lose money and encounter (lots of) problems
- **Keep it simple! Build from existing practices**
- **Build capacity continuously**
 - *Miners:*
 - How to be a cooperative (administration & management, roles & responsibilities, accountability, accountability)
 - How to mine responsibly and productively
 - How the programme works
 - What is at stake
 - *Support organisations* (miners' expectations; buyers' expectations, roles & responsibilities, good governance, monitoring and evaluation, etc.)
- **Monitor well**
 - Multiple monitors; clear reporting and whistleblowing avenues
 - Monitor the monitoring system
 - Monitor information flow
- **Manage expectations**
 - Of miners *and* buyers
 - Of regulators
 - Communicate, listen, re-communicate
 - Start small

Lessons: institutional governance

- ***Do you REALLY mean a co-operative?***
- ***Lay down the rules!***
 - Ensure proper guidelines and procedures are in place
 - Ensure they *are understood* within each mining organisation and the scheme-at-large.
 - Ensure all parties understand who is responsible for what and accountability structures
- ***Self-governance***
 - Empower cooperative members to manage their own affairs and finances;
 - Ensure clear accountabilities are in place
 - Ensure members have a real stake in their own success – and failure
- ***Fair finances – set things up for success, not failure***
 - Financing should be
 - Adequate
 - Timely
 - Supported by a contingency budget
 - Give training in assessing costs, cash flow, and managing budgets.
- ***Economic diversification***
 - Build co-operative resiliency, profitability, and sustainability
 - Encourage and enable the pursuit of supplementary and alternative livelihoods



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Lessons: rational mining practices

- ***Appropriate Technologies***
 - Be prepared to mechanise
 - production if the deposit requires it
 - washing if it will minimise theft
 - Mechanise wisely – consider drawbacks (masculinisation, environmental impacts, cost, etc.)
- ***Prospect scientifically!***
 - Mine land that has known reserves.
- ***Mine responsibly & productively***
 - Provide technical assistance and training in productive and responsible mining techniques.

Reminder!

Elements of a Successful Direct Marketing Scheme

1. Trust, transparency, partnership
2. Consistency and certainty of supply (volume, price, quality) important
3. Middlemen matter
4. Understand the miners' mindsets and marketing strategies
5. Work with existing supply chains
6. Work with producers & buyers with demonstrated commercial & development successes

How is the PRADD approach different?

- Talking of commercial partnership, not support
- Prospecting productive sites already
- Precedence of successful interventions and established relationships at local and national levels
- Different buying models being considered
- [fill in here today!]

Key questions 1



- How will the co-operatives be supported in how to engage well with the buyers, and vice versa?
 - What will 'facilitation' really comprise?
- What will the different parties bring to the table?
- What are the parties' expectations, roles, responsibilities, obligations?
- How will PRADD ensure this is politicised *well*?
- How can the mining be financed in ways that moves miners towards taking responsibility for finances whilst acknowledging capacity constraints?
- How will financial management work?
- How will trust be built? On both sides?
- What level of ethical branding is necessary? Is *any* necessary?

Key questions 2

- Who owns, decides, and controls?
 - How mining is done
 - How marketing / buying is done
 - How pricing is done
 - How grievances are settled?
 - How governance is set up
 - How communication is managed?
- Are the co-operative members compatible?
- Are objectives between all parties compatible?
 - Miners, buyers, programme managers?
- How can differences in expectations be reconciled?
- Do all parties truly understand their roles, obligations, and how the programme will work?
- How will individuals and organisations be held accountable for actions?
- How can we move miners from thinking as beneficiaries to thinking as commercial actors (from object to subject)?
- How will we manage vested interests? Can they be brought into the programme in a way that is constructive?