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Ian Smillie • Partnership Africa Canada

Let me begin, not by addressing the questions that Martin Rapaport has given us, but a few others that I have heard in recent months from people in the diamond trade.

“Why is Africa so underdeveloped?”

- “Africa” is bigger and more complex than “Europe”. There are success stories and failures. Unlike much of Asia and Latin America, Africa lost at least 12 million people to the slave trade and was colonized -- in most cases for less than 100 years. European institutions – the rule of law, an independent judiciary and press, strong civil societies, a “loyal opposition” and representative government came late and were weak, or they never came at all.
- In Angola the war for independence began in 1961 and lasted until the Portuguese finally left in 1974. The civil war began in 1976, sponsored by Cuba, the Soviet Union, South Africa and the United States, and it lasted until 2002. More than a million people died. Given the 400 years of terrible colonialism and 40 years of war, development and the institutions needed for good governance never had a chance.
- The Democratic Republic of the Congo was brutally managed by King Leopold until 1910 and then badly by Belgium until 1960. Negotiations on independence were only allowed to begin less than a year before the event took place. Within eight weeks of independence, Mobutu had dismissed the President and the Prime Minister, and until his exit in 1997, the country was run in much the way Leopold had run it – as a corrupt personal fiefdom. Since 1997, civil war has taken the lives of more than 4 million people, directly and indirectly.
- Sierra Leone had a longer history of development and British institutions, but all were veneer-thin. The first paved road to Kenema: 1947. Representative government in 1951, only ten years before independence. The first secondary school in Koidu, heart of the diamond area: 1965, four years *after* independence. The first post-independence elections were subverted in 1966 and a long downhill slide to corruption and chaos ensued.
- Compare Africa today, 45 years after most of its countries became independent, with the United States 85 years after independence: slavery, genocidal Indian wars and one of the most costly civil wars in all history.
- Compare Africa today with what transpired in Europe during the 20th century. Anyone who thinks Africa has an edge on conflict and misery would be well advised to read Mark Mazower’s excellent 1998 book, *Dark Continent: Europe’s Twentieth Century*.

“Why doesn’t foreign aid work? The ‘development experts’ don’t know what they are doing.”

- Which foreign aid do we mean when we say it doesn’t work? Huge amounts of foreign aid were given to Mobutu, a succession of Liberian, Somali, Ethiopian and Angolan thugs to promote Cold War strategies. *They* didn’t waste the money; *we* did by giving it to them. We have made it worse by keeping many of the loans we gave to monsters on the books, expecting postwar governments, struggling to stay afloat, to pay them off. Three years after the departure of Charles Taylor, Liberian debt, all of it negotiated between bad leaders and international aid agencies and banks, stands at \$3.7 billion.
- Sierra Leone once exported rice. Today it imports 50% of its rice because the local cost of production (seeds, pesticides, fertilizer, transportation to market etc) costs more than imported rice. Why is imported rice cheaper than Sierra Leonean rice? One reason is that the US rice industry, the second largest exporter in the world, is heavily subsidized. US rice farmers received \$533 million in subsidies in 2005. In 2006, 44% of American foreign aid to

Sierra Leone (\$16 million in total) was food aid. Sierra Leone needs food aid because its farmers can't compete against US farm subsidies. Food aid does not create jobs.

- At least the United States is *in* Sierra Leone. Apart from Ireland and Britain, which has an excellent aid program there, there are virtually no bilateral donors at all. France: absent. Germany: absent: Canada: absent. Sweden, Norway, Denmark, Netherlands – the most generous donor countries in the world: absent. Sierra Leone has ended its war. It has held democratic elections. It has an anti-corruption commission, a truth commission, a war crimes court. It has done most of what the world said it should do, and after spending a billion dollars a year on UN peacekeeping, the world simply walked away, leaving Sierra Leone largely to UN agencies, the World Bank and a tiny number of other multilateral agencies.
- *Which* foreign aid doesn't work? Education, especially education for girls has a direct bearing on a country's development. Education *works*. Inoculations *work*. Clinics *work*. Hospitals *work*. Roads *work*. Communications systems *work*. But if they are not on offer, they won't happen. And when they are on offer, they have to be appropriately tendered, priced, constructed and maintained. African governments have too often accepted aid projects that they cannot afford, and cannot maintain.

“The private sector has the answers.”

- The private sector has the answers to what? Health? Education? The rule of law? Democracy? Governments have to be able to provide these basics for their citizens. To do this, they must be well run and they must have income. In Sierra Leone, 68% of the population lives below the poverty line. An IMF report last year found that 45% of young men between the ages of 20 and 24 were “out of the labour force”. With 68% of the population living in absolute poverty, few pay income tax. Government revenues are derived mainly from import and export duties and sales tax, driving up the cost of living as well as imports and exports.
- Of all foreign direct investment to developing countries in 2005, only 9% went to Africa. Of that, 21% went to South Africa and 48% went to six oil-producing countries. There was 40% more FDI in the Netherlands in 2005 than in all of Africa, including Egypt and North Africa. FDI in Sierra Leone in 2004 was \$26.2 million, about the cost of putting a set of exit ramps on a thruway in North America.
- Capital flight from Africa has in fact been estimated to exceed all foreign aid and FDI combined, making Africa a net creditor in relation to the rest of the world.
- Productive small enterprise development is critical, but beyond micro-credit, there are few investments in most of Africa that are even remotely appropriate to local markets, capacities and resources – whether from aid agencies or the private sector.
- Of *course* the private sector has answers, but certainly not *all* the answers. Africa needs private investment, but above all it needs *productive* investment. Helping Africa export more raw materials has limited long-term impact; adding value locally and creating sustainable jobs can make a real difference.

“Corruption is the problem.”

- Corruption is *a* problem, and a serious one in Sierra Leone, the DRC and Angola. On a list of 163 countries, Transparency International ranks DRC #156 with Sierra Leone and Angola tied for #142. Each has a score of 2.2 out of 10. This is bad. But 100 countries have a rating of less than 4 out of 10, including Poland, Thailand, China, India, Georgia and Ukraine. Russia scores 2.5, only 14% higher than Sierra Leone and Angola.
- Many things cause and sustain corruption. If people live below the poverty line but wield some authority – as civil servants, police, customs or army personnel – the chances of abuse grow, especially where accountability and the rule of law is weak. And where average government wages are \$50 a month, temptation is great. The costs of electricity, gasoline, medicine, paper for textbooks and anything else that is imported are not significantly less in Africa than in the West, and while \$50 a month will go a lot farther in Africa than in the

United States, it is not enough to feed, clothe and house the average family in a decent, respectable manner. If you are not employed at all, the problem is obviously much worse.

Extreme Poverty

Extreme poverty is the most severe state of poverty, where people cannot meet basic needs for survival, such as food, water, clothing, shelter, sanitation, education and health care. The World Bank characterizes extreme poverty as living on US \$1 or less per day. Artisanal diamond diggers earn, on average, \$1 a day in Angola, Sierra Leone and the DRC.

The Four Questions

There are actually 28 question marks on the list for this conference, including one that has bedeviled the world through 150 years of labour turbulence: “What are fair wages?”

Let me address the one that seems most pertinent today: Should we buy artisanally produced diamonds from areas where working conditions are bad?

I think the question needs to be turned around. We know that most artisanally produced diamonds are the product of bad, if not terrible working conditions. We know that most of the people who work in the pits do so because they have no better alternative. If the work paid off in a reasonable way, large formal sector companies would probably be involved, trade unions would probably be involved, and conditions and wages would probably be better. Like much African agriculture, however, this is a subsistence, or a sub-subsistence activity, driven by hope, desperation and deep poverty.

Should we buy cocoa, or palm oil, or sisal or jute or sugar or bananas or cotton from countries where people work for subsistence wages or less? If the answer is no to any of these commodities, including diamonds, then we better have a good alternative to offer the people who live from their labour in these markets, before we throw them out of work.

The answer is not to suddenly stop buying products from very poor producers. The answer is to find alternatives for them, or to find ways to ensure that they are paid adequately for their work, and to ensure that they have what are regarded as basic human rights in most countries: food, shelter, safe and healthy working conditions, education, better lives for their children.

Individuals in the diamond industry and many others who have spent the better part of the last decade working on the issue of *conflict* diamonds, understand that the deep poverty and social chaos of Africa’s artisanal alluvial diamond fields cannot be allowed to continue. It is a disgrace. It was the genesis and the source of conflict diamonds, but no matter how many rules and laws are passed, the problem will not be resolved by regulation alone. You can’t solve poverty in Africa by fencing out the poor, any more than you could in Victorian England; any more than you can today in New York. While the rule of law is essential, economic problems need economic solutions. Development problems need development solutions.

But there is a special problem where diamonds are concerned. The kind of poverty I am talking about, existing in concert with the world’s most concentrated form of wealth, and all that diamonds symbolize, makes the diamond issue seem more dramatic than it would be if we were discussing cocoa or cotton or sugar. It attracts attention.

For us at Partnership Africa Canada, the issue is not whether the industry and consumers should continue to buy artisanal diamonds. These diamonds will find their way to market regardless of what we say, or what consumers or the media or angry NGOs say. A move to selective boycotts, whether industry-led or NGO-driven, would only force down the prices that poor diggers currently get. The issue, then, is what can be done to fix the problems that we all recognize, who should do it, and what

kind of benchmarks and time lines could we establish to demonstrate to consumers that real progress is being made?

There are actually a number of projects that aim to deal with these issues. USAID has been very active in establishing research and pilot projects in Sierra Leone. The Congolese government has a program to support artisanal miners. DFID has been very active at a policy level.

But when you add it up, it isn't a lot, it isn't coordinated, and like so many development efforts, memory is almost completely absent. Most lessons are not learned, and even where they are, they are not remembered. People move on, mistakes and failures – as important to learning as success -- tend to be buried. And the truth is that there are no simple answers. There is no magic bullet.

The Diamond Development Initiative

One of the reasons we – representatives of NGOs and industry -- created the Diamond Development Initiative was the conviction that we could build on the success of the Kimberley Process in bringing industry, NGOs and governments together to discuss these issues; to draw attention to the problem, and to bring others into a much larger and a much more concerted effort to deal with it. I don't mind telling you that it has been slow, especially for those of us who are as impatient as Martin Rapaport to see results. We certainly hope, however, that in due course, the DDI can contribute to solutions, to coordination, to learning and to benchmarking progress.

As many of you know, the DDI has been in a state of gestation for the past several months. Its first project, a study of who earns what in the Sierra Leone diamond trade, was funded by the Canadian Department of Foreign Affairs, and is included in the information package that has been provided to you for this meeting. DDI International has now been incorporated in the District of Columbia as a registered non-profit organization, and we expect that its charitable status will be confirmed soon.

In the meantime, we are moving ahead with a new project, on “Standards and Guidelines”. The Project aims to produce practical, relevant standards and guidelines for companies and development organizations with an interest in engagement in areas where artisanal alluvial diamond mining takes place. The first set of guidelines will be produced for Sierra Leone, and if successful, the project could be replicated elsewhere.

The project will produce a series of “What You Need to Know” guidelines that will:

- make the case for involvement;
- spell out the pitfalls of involvement and describe past experience – both successful and unsuccessful;
- draw on lessons learned locally and elsewhere, both geographically and in other mining sectors;
- provide a checklist for planning possible involvement.

Separate Guidelines will be produced for:

- government officials;
- donor agencies and NGOs, both local and international;
- companies considering the possibility of engagement in exploration, mining and/or purchasing diamonds.

As a separate initiative, we are also considering a simple guide that would be useful for artisanal miners in dealing with mining license holders, government officials, diamond dealers, trade unions and development organizations.

We are pleased to announce that the project will be co-financed in equal parts by Partnership Africa Canada (and I should acknowledge the support we receive from a variety of donors, including the International Development Research Centre and the Governments of Canada and Ireland), the Communities and Small-Scale Mining Secretariat of the World Bank, and a group of companies, including BHP Billiton, Cartier International, Jewelers of America, De Beers, the Rapaport Group, Rio Tinto and the Signet Group. We are very grateful to Michael Rae of the Council for Responsible Jewelry Practices for his advice and support. This is a small project, but it is a beginning. It is being supported by an appropriately ecumenical group, and we are very much looking forward to the production of something that will help outsiders, visitors and development organizations in developing new kinds of relationships in Sierra Leone, relationships that are beneficial to the artisanal diamond diggers of that country.

We are conscious of the endorsement of the DDI by the Government of Sierra Leone: “The DDI offers an intelligent approach to the long-standing problems of artisanal diamond mining. Regulation has its place, but development problems require development solutions.” We hope and expect that this project will be a small step in that direction.

More important than the project itself, however, is the willingness to work together on some of these issues. We hope and expect that this will be the start of something new, and different, and successful.

Back to Martin’s Questions

We believe, based on the first DDI study of Sierra Leone, that there are large enough profit margins in the system in Sierra Leone as it currently exists to generate better payments for diggers. We believe too that if you move international buyers closer to the producers and create a safe and transparent buying and selling environment, there would be greater competition among buyers and the possibility of closer-to-Antwerp prices for diggers. All this is much easier said than done, but it should not be impossible.

We have to be very careful, however, to avoid unintended consequences. There are already too many diggers looking for a dwindling resource. If better prices become available, more people will undoubtedly flock to the enterprise, defeating the purpose of the exercise. Work on the diamond side alone cannot solve all of the problems. Alternative livelihoods are essential, and these alternative livelihoods and working conditions *must* be more attractive than diamond digging.

Job creation, or rather the creation of sustainable livelihoods, is the number one development priority in all poor countries. It has proven more difficult in Africa than elsewhere. For it to happen on a meaningful scale, you need an educated, healthy workforce. For that you need schools and good basic health facilities. You need basic infrastructure – roads, electricity, and water. And you need *investors* with ideas that can work, with ideas and technologies that *create* jobs, as opposed to the kinds of technology we have developed in the West, which are mostly aimed at reducing the labour content.

This needs to be done everywhere, but it is most especially needed in the diamond areas, which in Sierra Leone, Angola and the DRC have the worst health, education and employment indicators in countries that are already at the bottom of the UN’s Human Development Index.

Fair Trade Diamonds

Who could be opposed to something called “fair trade diamonds”. But “fair” is a relative term and “fair trade” is a complicated issue, containing some large challenges. We have to be careful, for example, about privileging one kind of artisanal diamond over another. Many of us deplore the idea that consumers should favour Canadian diamonds, for example, and boycott anything produced artisanally. I have said many times that in this sort of an arrangement, Canada gets the diamond mine and Africa gets the shaft. The same sort of thing could happen where fair trade diamonds are

concerned. Those diamonds produced under fair trade conditions would be privileged over those that are not. It might be possible to create a fair trade regime in some areas of Sierra Leone, if we, or some of us, or an NGO wanted to promote the idea. But what about the artisanal diamonds in the rest of the country where the NGOs or the industry have not taken an interest? Is the answer just “Too bad for you; we aren’t interested”?

What about the DRC, Guinea, Republic of Congo, Angola and all the other places that might be left out? Too bad for them?

We need to think this through very carefully, and again think about the law of unintended consequences. It is all very well to light one candle, but not if it snuffs out others.



Collectively, the people in this room know as much about diamonds as there is to know, but there is a lot to learn about development. Can we, collectively commit to this issue in ways that help us to know more, to learn from mistakes and build on success? I think we can. I think we can commit to a process of involvement and investment in this issue that will give us the authority to request, and even to demand concomitant participation on the development side, from the world’s development agencies, and from the governments of the countries we are talking about here today.

In 1967, 40 years ago, I went to Sierra Leone as a member of CUSO, the Canadian Peace Corps, to teach high school. By chance, I was posted to Koidu Secondary School, in the heart of the diamond area, the area so graphically depicted in the film *Blood Diamond*. None of us then, whether we were outsiders or Sierra Leoneans, would have guessed that 25 years hence the country would be engaged in one of Africa’s most terrible wars. I remember seeing the film of Robert Ruark’s novel, *Something of Value*, starring Rock Hudson and Sidney Poitier at the Opera Cinema in Koidu, and laughing with the rest of the audience at Hollywood’s portrayal of Africa. Nobody could have guessed that 40 years later our town and our district would be the *subject* of a major Hollywood movie, with stars as big as Rock Hudson and Sidney Poitier.

We thought we could see development happening: roads, hospitals, schools; bright kids with good lives ahead of them. We were wrong. We were all dead wrong, and although diamonds were not the cause of what happened in Sierra Leone, they were the fuel, because they were mismanaged so badly – by Sierra Leoneans and by outsiders; mismanaged by commission and by omission.

I certainly never thought 40 years ago that I would be talking to a group of people like this –people with the knowledge, the experience and a growing commitment to ensure that the diamond mistakes of the past are not repeated; people with the knowledge and the experience and the *authority* to bring others to the discussion and to the work that will be required to turn artisanally produced diamonds from the problem they have been, into the asset for personal and national development that we believe they can be. It won’t be easy, and it won’t be fast, and it won’t be cheap. But I believe that it is do-able. And I know that the alternative is not acceptable.