

# Corporate Social Responsibility and African Development Diamonds

Draft for discussion

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# Corporate Social Responsibility and African Development Diamonds

## 1 The development challenge

Africa accounts for \$8.3 billion of the world's \$12.6 billion rough diamond production and is home to a diamond industry which drives more than \$60 billion in global diamond jewellery sales. The success of this industry means that development priorities in health and education are being met in countries such as South Africa, Botswana and Namibia. In Botswana, the diamond industry accounts for 70% of total export revenue and 30% of GDP.

Small-scale informal mining is currently a significant contributor to world diamond flows but is not developing revenue that can contribute to development. Much of the estimated 10-20% of the world's rough production of diamonds that comes from these sources is considered 'illicit', meaning that mining areas are often unlicensed and trading is in cash through non registered buyers, called 'intermediaries'. This means that governments do not receive taxes and royalties from small-scale mining and the diggers themselves are often exploited by these intermediaries who undervalue the stones and offer limited routes to market.

The countries that are home to small-scale informal mining rank amongst the most poor in the world according to the Human Development Index (UNDP) which combines indicators of life expectancy; adult literacy rates and the combined enrolment ratio for primary, secondary and tertiary schools; and, GDP per capita. Informal diggers are estimated to number between 1.3 and 1.4 million and typically live in abject poverty, supporting millions of dependents and forming the cornerstone of livelihood security. See the map of African artisanal and small-scale mining and development status (Figure 1).

The Kimberley Process (KP) means diamonds from small-scale informal mining are regulated in so far as preventing the revenue getting into the hands of war lords and fuelling conflict, as it previously did in Sierra Leone and Angola – almost all, but an estimated 0.2% of rough diamonds pertaining to tiny areas of Africa, such as the Birim Valley of Cote d'Ivoire, are now conflict free. However, the Kimberley Process does not fully address the inter-related issues of small-scale mining, illicit diamond trading from mine to export and international money laundering.

It is mainly as a result of the informal nature of the small-scale diamond mining industry that diamond production in Angola, the Central African Republic, Cote d'Ivoire, Democratic Republic of Congo, Guinea, Ghana, Sierra Leone and Tanzania is failing to generate the wealth it could for governments to help meet their development goals, including essential reconstruction in former war torn countries. This fact is all the more pertinent as world demand for diamonds continues to grow at unprecedented rates providing opportunities for diamond producing countries in Africa to fast track development goals.

This paper explores three areas of concern:

First, the importance of ensuring that poor people who are dependent on diamond mining do not lose their livelihood security as a result in reductions in demand for diamonds due to reputational damage to the diamond industry by the forthcoming film 'The Blood Diamond'.

Second, the importance of harnessing potential revenue from diamond mining to contribute to post conflict reconstruction and development in the poorest African nations and the changes that are needed, and the partnerships that will foster them, to bring about that goal.

Third, the importance of ensuring that the formal diamond industry in Africa, which in recent years has increased value added to producing countries through favourable employment conditions, black economic empowerment and beneficiation initiatives (setting up local cutting and polishing industries and skills transfers), continues to flourish and contribute revenue to development goals.

The ideas in this paper are based on the assumption that in the diamond industry, business and social goals are uniquely blended. The successful growth of the industry is dependant more than others on enhanced consumer confidence in the product – diamonds. The special quality of diamonds – emotions which embody trust, integrity, longevity and love, is fragile and highly susceptible to reputation risk.

It is in the interest of all actors in the industry – small-scale diggers, industry employees, diamond companies, host governments, cutting and polishing firms and jewellery manufacturers that the image of diamonds is a good one and that their potential to contribute to African development are explored in detail. It is therefore crucial to the very value proposition of the diamond that every country and actor along the diamond pipeline benefits from the 'diamond dream'.

## 2 Corporate Social Responsibility (CSR) – a role for business?

In the past, missed opportunities such as the failure to ensure mineral wealth contributes to development was considered the responsibility of governments and outside the control of business, and was blamed on 'exogenous factors' like conflict or corruption, without trying to understand either the causes, or the role of the private sector in contributing to solutions.

However, the roles and responsibilities of business in society, in particular global business, are being defined more broadly by an expanding range of stakeholders. This is leading companies to set new standards of responsible business practice within the workplace and beyond. These boundaries of responsibility are expanding both internally and externally.

Internally, corporations are increasingly responsible to their employees and workers in their supply chains. There exists a raft of emerging international law, guidelines and voluntary initiatives as well as regulatory frameworks and risk review procedures that seek to define corporate responsibility by establishing new norms of best practice and accountability to stakeholders, not just shareholders. Externally, society increasingly expects global business to work with others to provide solutions to humanitarian crises and endemic problems such as HIV/AIDS, conflict, poverty, climate change, violations of human rights and the impact of natural disasters. Business must increasingly be seen to address these shared or common problems, not just talk about them, in order to obtain what is increasingly referred to as a 'social licence to operate'.

It is also becoming the norm that business makes efforts to understand the implications of its decision making for society, not just its own shareholders. This means for example, for a mining company, considering the impact of an investment decision on local communities; for a manufacturing company assessing the impact of a way of operating on the use of natural resources; for a transportation company evaluating its emissions impact on the environment; and, for a media company, taking responsibility for the impact of a story or film – the way of depicting events – on public perception and purchasing preferences. Corporate Social Responsibility is not a simple task and requires a change of business culture. It requires considering these impacts from the different perspectives of stakeholders – it is not just the business viewpoint that counts.

Some companies address CSR by applying core skills in ways that integrate social development and business goals. For example, Microsoft has developed innovative community learning initiatives and innovative teaching software packages which have been introduced in emerging markets such as Pakistan and Egypt. HP has developed multi-screen computer systems for children in South Africa and solar powered computers for rural schools. TNT uses its logistics and transportation expertise to transport food from where it is to where it isn't, assisting drought ridden regions of the Horn of Africa and partnering with the World Food Programme in the logistics of pre-positioning emergency humanitarian relief. Nike has developed sports wear solutions to encourage Arab girls to play sport while keeping their heads covered. The De Beers family of companies, including Debswana and Namdeb, and Anglo American have introduced HIV/AIDS treatment and prevention programmes into the workplace and to family and community members, leveraging their skills. Unilever and SAB Miller have introduced schemes to buy commodities directly from farmers assuring them of fair prices, cutting out intermediaries. Sporting good manufacturers have re structured their industry to formalise village working and ensure women good wages to encourage them to send their children to school rather than out to work. Tobacco and cocoa producers have introduced workers organisations and implemented fair labour codes to eliminate child and bonded labour. The 1990s operating paradigm of believing it possible to 'stay neutral' and 'do no harm' is no longer adequate. Business must demonstrate that it is 'doing positive good'. Moreover, the business drivers are compelling.

Wise companies recognise that they cannot be this positive force alone and are fulfilling this wider role by working in partnership with others. This change in the relationship between businesses and stakeholders is also related to a fundamental change in the operating landscape, broadly associated with globalisation and deregulation, information generation and access, and consumer power and influence. The business case for corporate responsibility is a blend of concerns about reputation management, risk management, employee recruitment, motivation and retention, investor relations and access to capital - particularly as a result of the rise in influence of the institutional investor, new rules of competitiveness, the links between operational efficiency and resource use efficiency and co-operative relationships with local communities. The most significant institutional innovation that promotes this new business climate is the UN Global Compact, which asks business to work in partnership to protect human rights and avoid complicity; to respect labour standards in operations and supply chains; to protect the environment and exercise precaution in its impacts; and, to avoid corruption. A number of companies that operate in Africa have signed the Compact. Increasingly it is recognised that business can play a role in Africa's development.

### 3 Background to small-scale informal mining in Africa

#### What does CSR mean in the African small-scale mining context?

A coalition of affected and interested parties is being created which could make a real and lasting difference to the approximately one million individuals and their dependents that make their living in the informal diamond mining sector. It is planned that this coalition would be led by the governments that host such activity with support from other governments, advocacy non-governmental organisations (NGOs), development NGOs and industry. It would begin small, with a pilot, and grow. Africa's diamond industry and other private sector partners with an interest could build on this and rise to the challenge of applying their skills to help develop tools and systems that would facilitate the further legalisation and legitimisation of the sector. The industry recognises however, that for such a coalition to develop and start to work together, it will need to play a catalytic role, building on the work of existing partnerships such as the multi-stakeholder Diamond Development Initiative, the Peace Diamond Alliance and the Communities and Small Scale Mining project of the World Bank, among other initiatives, all of which aim to address the causes of small-scale informal diamond mining – poverty; not just the symptoms – conflict.

The goal of such a coalition would be: the creation of a secure, stable and sustainable business environment for 1.3 million informal small-scale diggers in Africa through the further legitimisation, legalisation and regulation of their activity, with the support of all relevant stakeholders, thereby enhancing the reputation of the African diamond industry and facilitating the mining and beneficiation of diamonds from legitimate alluvial sources.

#### The nature and structure of small-scale informal diamond mining

Small-scale informal mining involves the 'extraction of minerals with the simplest of tools, on a subsistence level'.<sup>1</sup> Such mining of diamonds in Africa is carried out by people working alone, in families or in small groups, mainly in and around alluvial deposits. This activity takes place usually in the informal sector outside the legal and regulatory framework. Small-scale informal mining is sometimes the only means of subsistence available and workers roam large distances following river beds. In other cases, especially where little equipment is used, it is a seasonal activity, undertaken when river beds are dry while farming activities are undertaken the rest of the year.

The geological nature of diamonds creates special situations. The Kimberlite mines of Botswana, Canada and Russia can be fenced and protected and exclusion zones demarked around the marine sands in Namibia. Alluvial diamonds, scattered over hundreds of square miles in perilous areas, present a more difficult regulatory problem and lend themselves to small-scale informal mining. This is especially true of DRC, Sierra Leone and Angola, and to a lesser extent in Guinea, Liberia, Côte d'Ivoire, Ghana, and the Central African Republic. (Figure 1: Artisanal and Small-Scale Mining).

The small-scale diamond mining industry works in a pyramid system. Diggers sell their diamonds to non-registered buyers called intermediaries who then sell on to licensed businesses for export. Vast mark-ups between each level leave the diggers at the bottom of this pyramid, earning less than \$1 a day. Despite poor earnings of diggers, it is estimated that for every \$1 generated from small-scale mining about \$3 are generated in other non-mining jobs – thus demonstrating the value of such activity to national economies. However, diggers do not receive a regular income, increasing the vulnerability of their dependents. Small-scale informal diggers are often paid as 'piece work' which means they only receive payment if they find a diamond – there is no secure wage. At other times they and their families survive on patronage which obliges them to certain intermediaries, to whom they may become indebted. Moreover, the nature of what is sometimes described as a 'casino economy' is destructive of social structures conducive to development. If a male miner finds a diamond there is a risk of money being squandered immediately and it does not necessarily translate back into improved income and opportunity for his dependents.

Small-scale informal mining is currently a significant contributor to world diamond flows but has significant unrealised potential. Much of the estimated 15% of the world's rough production of diamonds that comes from these sources is considered 'illicit', meaning that mining areas are often unlicensed and trading through intermediaries is in cash and without formal transaction records – which lends itself to money laundering and even terrorism financing. This also means that governments do not benefit from revenue

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<sup>1</sup> Republic of South Africa. (1998). White Paper: A Minerals and Mining Policy for South Africa. <http://www.polity.org.za>

generated by small-scale mining and diggers themselves are often exploited by intermediaries who undervalue their stones or offer limited routes to market.<sup>2</sup> Moreover, intermediaries are unlikely to invest in the diamond rich host country reducing competitiveness.

Countries home to small-scale informal mining rank amongst the most poor in the world according to the Human Development Index (UNDP) which combines indicators of life expectancy; adult literacy rate and the combined enrolment ratio for primary, secondary and tertiary schools; GDP per capita. These countries also rank poorly in respect of human rights and labour standards. This is also damaging to the reputation of the diamond industry. There is a vociferous anti-mining, anti-globalisation and anti-debt movement that uses such statistics to support arguments that mining should be stopped.

## The economic significance of small-scale informal mining

Nonetheless, small-scale diamond mining in Africa provides livelihoods for significant numbers of people especially in the Democratic Republic of Congo (approximately 708,000 small-scale diggers), Angola (150,000), Sierra Leone (120,000), Ghana (70,000), Liberia (60,000) and the Central African Republic (50,000). Countries where contributions from small-scale diamond mining are most important include:

- **DRC** – small-scale diggers produce the majority of diamonds officially exported – 85% in value and 74% in weight. The 2004 export value of \$727.5 million corresponds to 66% of total country exports.
- **Angola** – diamonds are the second most important export after oil, estimated at 6.6 million carats or \$763 million in 2004. Small-scale diggers contributed approximately 800,000 carats of this total.
- **Sierra Leone** – small-scale diamond mining provides work for more people than any sector after subsistence farming and is the country's major source of foreign exchange, accounting for around 60% of total export revenues. Over 90% of official 2004 diamond exports came from small-scale mining.
- **Central African Republic** – whose diamond economy is almost exclusively based on informal alluvial production, 40% of total export earnings are derived from diamonds.
- **Guinea** – small-scale diggers generated about 95% of the 740,000 carats officially produced in 2004.

The sector's largely unregulated nature makes accurate estimates of production difficult, and extensive smuggling is still prevalent in many countries. Unofficial government estimates in Sierra Leone place the level of smuggling at 50% and one recent study suggests that it is much higher. Angolan government officials estimate that \$375 million in state revenues are still lost every year due to smuggling, often to DRC. Illicit behaviour – theft, illicit trade, corruption, mismanagement and war – annually deprives governments of millions of dollars in taxation, holding back socio-economic development in some of the poorest, often formerly war torn, countries in the world.

## Elimination of conflict diamonds and the Kimberley Process (KP)

Small-scale informal diamonds have also been implicated in fuelling conflict and civil wars, especially in Angola, DRC, Cote d'Ivoire, Liberia and Sierra Leone. While major conflict has ended in most countries, notably Angola and Sierra Leone, and the Kimberley Process is considered a qualified success by most commentators, the political situation remains unstable. Many of these countries face the challenge of reconstruction, while the root causes of conflict, such as poverty and corruption, may remain unresolved.

Conflict diamonds, also known as 'blood' diamonds, are rough diamonds used by rebel movements or their allies to finance armed conflict aimed at undermining legitimate governments. Fighting that is fuelled by the trade in conflict diamonds has been relegated to a few countries, like Cote D'Ivoire and comprises less than 0.2% of rough diamond trade. Recent Peace Agreements negotiated in Sierra Leone, the Democratic Republic of Congo and Liberia remain fragile. Implementation of the Kimberley Process (KP) is an important contributor to peace, by helping to deny resources to rebel movements and by strengthening legitimate governments. However, the Kimberley Process does not address related issues of illicit diamond trading from mine to export and international money laundering.

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<sup>2</sup> Use of smart card technology provides an outsourced solution for all payments that are required to be made to recipients without bank accounts, reducing administration and cash handling costs, facilitating information management regarding payment status and creating auditable transaction records.

The Kimberley Process is an international certification scheme that regulates the trade in rough diamonds. Its aim is to prevent the trade in conflict diamonds, while helping to protect the legitimate trade in rough diamonds. The Kimberley Process Certification Scheme (KPCS) outlines the provisions by which trade in rough diamonds is to occur and has developed minimum requirements for Participants. The KP is comprised of states and regional economic integration organisations (Participants) who are eligible to trade in rough diamonds under the provisions of the KPCS. There are 47 Participants, including the EC, representing all major rough diamond producing, exporting and importing countries.

The Diamond Industry, via the World Diamond Council, and Civil Society groups (Global Witness & Partnership Africa Canada) are also integral parts of the KP. These organisations have been involved since its inception and continue to contribute to the effective implementation and monitoring of the KP. The industry operates a voluntary system of warranties for polished diamonds which provides further safeguards to 'ring fence' conflict diamonds and prevent them entering legal diamond flows.

## **Description of other key stakeholders and their roles in small-scale mining**

**Governments** play a crucial role through the interpretation of international law, the development of national law and its implementation as regulation as well as the creation of a business environment that is conducive to growth and competitiveness. Regulation most relevant to small-scale diggers includes that relating to land rights, licensing, taxation, labour law, health, safety and environmental and social issues. Governments in African countries often have insufficient capacity and resources to fully implement legislation or provide the education and development opportunities to lift local populations out of poverty, with children being the most vulnerable.

**Advocacy NGOs** play a key role in campaigning for the rights of small-scale diggers and indigenous communities and against any action that they interpret to mean that a business is complicit in the failure of the state to protect the rights of these workers. Such groups tend to campaign for such rights by attacking brands through communications that address consumers. Examples of advocacy NGOs include Amnesty International, Human Rights Watch, Global Witness and Survival International.

**Development NGOs** work actively to further the economic prosperity and social welfare of such groups through the provision of education, microfinance opportunities etc., often where government capacity is low. Increasingly development NGOs focus on solutions that are sustainable and that do not promote dependence. Also, in each developing country there is a selected NGO that is the implementing agency for key UN humanitarian and development initiatives. Examples of development NGOs include Oxfam, Save the Children, World Vision, IFRC, Concern World Wide and Care.

**The United Nations** came into existence primarily 'to promote international cooperation and to achieve peace and security'. The United Nations convenes country participation and commitment to emerging international issues and legislation (e.g. conflict diamonds and anti-money laundering). This is done through, for example, the Security Council. It also takes action to address development through various agencies e.g. International Labour Organisation (ILO), United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP) and the World Food Programme (WFP).

**Inter-governmental organisations** such as the World Bank or regional organisations such as NEPAD provide opportunities to address these issues through the formation of specialist groups and trust funds.

**International businesses** – The relationship between large companies and small-scale diggers varies but is characterised by mutual mistrust and sometimes conflict. Large companies usually consider small-scale diggers as 'trespassers', while diggers often regard the granting of concessions to large companies as depriving them of their land and livelihood. It is important for companies to adopt progressive attitudes, as evidence from gold mining suggests that such small-scale diggers and the communities that they are a part of can grant what is sometimes referred to as a 'social license to operate'.

**Intermediaries** – There are four types of intermediaries involved in the diamond industry.

- Those that purchase diamonds directly from diggers on behalf of agents, who pay them a 'cut'.
- Agents and intermediaries who are outside of the formal economy but remain local to the country. These two groups could be persuaded to do different work, so long as profits could still be made.
- Criminal elements that act as intermediaries between local agents and global players but who make their money through deals that place diamonds from informal sources in legal international flows.
- International players that are acting entirely outside of the legal system of any country. It is this fourth group that has been linked to terrorism finance.

## 4 Limitations of international law and national regulatory frameworks

The continuation of illicit diamond mining and the impoverished conditions of small-scale diggers are due to weaknesses within the international and national framework of law designed to combat money laundering and terrorism financing – in particular with respect to the diamond industry. Whilst there is guiding international and national law and legislation in OECD countries, its outreach is limited in high risk countries, especially those emerging from conflict. Most significant is UN Resolution A/RES/55/56 on conflict diamonds (2000), which acknowledges the role of diamonds in fuelling conflict. In November 2001, a Ministerial Meeting endorsed the KP document put before the General Assembly. The diamond industry and governments are working through the KP to end the trade in conflict diamonds – but the KP does not directly address anti money laundering (AML) or combating the financing of terrorism (CFT).

There is applicable European and US law regarding money laundering and small-scale diamond mining, but this would only ever be of direct relevance once illicit diamonds crossed EU or US borders – which is too late to ‘plug the gap’ in terms of traceability and origin, particularly as virtually all diamonds would be traded within the KPCS: The US Patriot Act 2001 includes extensive measures relating to money laundering. In June 2005, the US Financial Crimes Enforcement Network (FinCEN) extended AML compliance programmes to dealers in precious metals, stones or jewels – requiring them to have programmes in place, including rules, policies and procedures, and to report receipt of cash or instruments totaling more than \$10,000. FinCEN also promotes information sharing among law enforcement agencies, the regulatory and financial sectors.

Most of the above measures have focused on sophisticated and centralised means of transferring money and property. Less sophisticated, less formal areas remain ‘under the radar’, e.g. value transfer systems such as Hawala (South Asia), Fei ch’ien (China), Phoe Kuan (Thailand), as well as the physical carriage of gems across borders within very weak enforcement environments. Criminal elements rely on the lack of transparency in such systems to launder money. Such systems also operate where modern banking facilities are inaccessible, or where corruption is rampant. The trust-based nature of such systems means they are decentralised, unregistered and hard to detect. Very little is known about the extent to which these systems are used, but there is evidence of Hawala being used by Lebanese traders in Sierra Leone.

Despite the challenges posed by the money laundering that surrounds small-scale informal diamond mining, there are still improvements which can be made to at least tighten up international law in this respect and so allow for future efforts to focus entirely on implementation within the relevant states. Practice has shown that whilst implementation of international law has often proven difficult in weak, uncooperative or unstable states, there can be little doubt that the moral and political leverage it can generate can be long-standing. As a result, efforts should be made to liaise and cooperate with interested parties at the UN, amongst African governments and NEPAD as well as in the EU and the US, in order to identify and plug the legal lacunae which currently exist in international law.

## 5 Outcomes – small-scale mining as a catalyst for development

Solutions are imperative to address small-scale informal diamond mining challenges from a ‘top down’ and ‘bottom up’ perspective. The more entrenched illegal activity becomes in those economies emerging from conflict, the more intractable problems will become. There are also risks of a renewal of conflict in these fragile democracies if illicit mining, as well as the poverty it generates, is not addressed.

First, ‘top down’, international/national legal frameworks will need to be strengthened to prevent diamonds from small-scale sources being used for money laundering and the funding of illegal activities within economies and to generate revenue for development. This would include strengthening national institutions and capacity building drawing on the core competences of governments of mature diamond mining economies and the industry, relating to land and mineral rights, licensing frameworks, diamond valuation expertise, beneficiation, selling options, as well as controls to prevent money laundering and smuggling. It would also include enhancing political stability and the regional investment climate by promoting dynamic business models and technological change through innovative mechanisms such as new credit lines, smart card systems that formalise transactions and projects for mine rehabilitation, beneficiation and jewellery making to ensure value added from mining within Africa.

Second, ‘bottom up’, new business models will need to be developed to create sustainable livelihoods for diggers, provide microfinance and secure banking/transaction services and generate attractive investment environments.

This might include:

- **The progressive formalisation of informal production** into small enterprises supported by training, capacity building, technical support and financial inclusion measures; and, the promotion of decent working conditions and fair prices.
- **The creation of meaningful income earning opportunities** for diggers whose increased spending in turn will spin off small businesses and the promotion of more equitable distribution of benefits from small-scale diamond mining as part of a thriving and legitimate African industry.
- **Pilot business models** through the creation of an industry task force and partnerships to study developing sustainable business models in different mining contexts. Models may include projects with significant technical input requiring financial investment and capacity building, as well as arms length fair valuation and payment systems using smart card technologies and ICTs.
- **Solutions could be developed within the framework of the already successful Diamond Development Initiative (DDI)** to facilitate the exchange of specific expertise, collaborative projects in different countries that build on the diverse strengths of different partners from a range of interested stakeholder groups and a pan-African forum, facilitated by NEPAD, for sharing expertise and experience about best practice solutions and lessons from mistakes.
- **Better and fair prices paid directly to diggers** by legitimate diamond purchasers rather than illegal intermediaries, the capacity to value diamonds more accurately and the development benefits that will ensue through parallel social investment activities should be an incentive for diggers to participate.
- **The diamond industry could contribute to the development of a RED product** that could generate profit to support the Global Fund's work on HIV/AIDS in Africa and a project to address HIV/AIDS amongst the small-scale diamond sector, perhaps in cooperation with other RED partners.
- **The social investment programmes of the industry** could be harnessed so that, in partnership with relevant UN agencies and NGOs, solutions are developed that are sustainable for the dependent of small-scale diamond diggers that take account of the need for alternative livelihoods to be developed to support the transition to more productive work, where geological expertise shows deposits have been mined out or have low predicted yield.

## 6 Enhancing the reputation of African development diamonds

The proposed coalition programme would support the KP by addressing the root causes of conflict diamonds, money laundering and corruption. This programme would also be aligned with the NEPAD principles which emphasise good governance, 'anchoring the development of Africa on its own resources', building competitiveness and development linked to the Millennium Development Goals (MDGs). Diamonds from small-scale mining would contribute to existing diamond flows from the African industry, with the same assurance that they are contributing to development based on eradicating poverty and protecting human rights and the environment.

The programme would also support the goals that NEPAD has set for the mining sector in Africa, including:

- **Improvement of information** about the quality of mineral resources.
- **Creating a regulatory framework** conducive to African development and the minerals sector.
- **Establishing policies** for the efficient extraction of natural resources and high quality minerals.
- **Supporting the NEPAD action plan for mining** which emphasises value adding beneficiation.

Over the last five years the African diamond industry has incorporated a number of measures and management systems to ensure excellent environmental performance and social responsibility, with third party assurance mechanisms and certification schemes to verify continuous improvement. It is important that these advances and continuous improvement which characterises the industry be extended to small-scale mining as they are of direct relevance to consumer confidence and the expansion of a thriving African industry. Progress could therefore be subject to peer review and multi stakeholder assurance facilitated, for example, by the Diamond Development Initiative (DDI) and NEPAD. Achieving this shared goal will require everyone in the African diamond industry pulling together. Working in this way will enable governments and the industry to show that they care, reinforced by creative volunteer schemes, the sharing of expertise and peer review to promote the pooling of collective experience to shape a better future. This programme should enhance consumer confidence in the African diamond industry and should make a real difference to the lives of ten million or more Africans.



## 7 Process – an action plan and collaborative workstreams

A number of parallel actions are required over the long term to ensure the programme is sustainable. Most of all the focus should be on relationship building between governments in Africa that host mature diamond mining industries and those that have newly evolving diamond industries, as part of an initiative to increase the market for African diamonds so that the benefits flow to all diamond rich countries. It is suggested that NEPAD be involved in providing the framework for longer term cooperation. In the short term a number of actions are required to launch the programme and begin implementation:

### Eliminating illicit and conflict diamonds through strengthened legal frameworks

- **Identifying gaps in international AML law and its implementation** and formulate action plan for how they should be addressed including a possible draft UN Resolution. Work will be completed through engagement with the UN, and EU and US governments. Business could lobby for this.
- **Engagement by African governments** over diamond trade flow transparency, international law relating to money laundering etc. including engagement within NEPAD and in respect of the MDGs.
- **A review of current status of institutional capacity in countries** that are home to diamond mining and the consultative drafting of action plans to strengthen national institutions relating to mineral law and its implementation – land rights, licensing, taxation, royalties, beneficiation and market information.
- **A review of current status and the consultative drafting of action plans** to strengthen capacity building efforts in local organisations relating to anti-corruption measures and local AML practices such as valuation and formalising transactions supported by possible technology transfer projects from the governments of South Africa, Botswana and Namibia as well as the industry.

### Developing sustainable business models for small-scale diamond production

- **Undertake integrated baseline assessment**, stakeholder mapping and develop resource flow charts, in a comparative and systematic way, for small-scale diamond mining in relevant African states based on several recent studies undertaken in Sierra Leone. Such assessments should also include in-depth review of public knowledge about the extent of resources and alternative livelihoods options.
- **Stakeholder engagement** – with international organisations and development/advocacy NGOs, linked to the MDGs and United Nations Global Compact (UNGC) – at local level and international level, undertaken for example as part of the activities of the DDI.
- **Develop and pilot sustainable business models** for small-scale diggers in each mining context, starting with Tanzania and then Angola, Sierra Leone, DRC and Liberia. These would build on the experience of ongoing projects (e.g. DfID, USAID) as well as companies, banks and local NGOs.
- **The establishment of local partnerships and working relationships to support development** and livelihood options based on, for example: school feeding in collaboration with the World Food Programme, support of alternative livelihoods in collaboration with governments and NGOs, and HIV wellness centres in collaboration with business, to help ensure solutions are sustainable.
- **Exploration of microfinance schemes** and creative credit lines to promote efficiency and scale up through access to mining technologies, equipment, ICTs etc. Such schemes should go beyond micro-finance and seek to encompass new credit lines for business, savings, transfers, payments, and insurance. This includes use of smart card technology to bring banking facilities to un-banked and under-banked populations and formalise the cash-based small-scale mining economy through information management and auditable record keeping of transactions.
- **Creation of education/training opportunities** for child labourers and adults with a focus on literacy rates and vocational expertise. Education for children will seek to improve primary schooling. For adults it will address gaps in education due to years of conflict as well as draw on core competence of industry and government experts from South Africa, Botswana and Namibia.
- **Retailers integrated within the Council for Responsible Jewellery Practices (CRJP) process** and other initiatives such as RED to reinforce African development. Retailer engagement would focus on enhanced awareness-raising and communications skills for consumer questions on conflict diamonds.
- **Enhanced relationships with media/entertainment industries** based on the shared understanding of the African development imperative and transparency.

## 8 Stakeholders: who will benefit and how

The outcomes of this project will generate different benefits for each of the following stakeholder groups.

### Diggers

Figure 1 shows the current status of small-scale mining in Africa, drawing on data from gold and diamond small-scale mining provided by CASM. While there are no accurate figures, as a rule of thumb, the number of 1 to 1.4 million diggers is most commonly discussed. One could multiply the number of diggers by ten to understand the extent of dependency networks – children, elderly people; particularly with the knowledge that these countries are also amongst the worst hit on the African continent in terms of HIV/AIDS, malaria and TB. Multiply by ten again to understand the benefits that might ensue for local businesses that might serve these diggers and their dependents as they increase their wealth, and it is clear that the development and formalisation of the small-scale mining sector, if well managed, could assist in substantive ways in poverty alleviation and the meeting of the MDGs for as many as 100 million Africans.

#### Diggers will benefit from this programme in three ways:

- **Poverty alleviation** – providing small-scale diggers with the tools to value more accurately the diamonds they discover and sell them informed by up-to-date market information (including micro finance for ICT projects, building on similar successful models for agriculture in Africa) would significantly improve independence from intermediaries, increase earnings by up to five times and enhance development prospects. Guaranteed fair prices, or a fair wage with a bonus for diamonds found, would enhance livelihoods even further.
- **Capacity building and entrepreneurship** – providing diggers with skills that enhance their self esteem and build their capacity so that they become dynamic entrepreneurs, leading some to form small mining companies thus building their own business while others become employees with the opportunity to earn secure wages.
- **Development projects** – providing diggers with support to enhance their education, health and well being through development projects that (a) directly benefit their health (e.g. HIV wellness centres) and that (b) provide possibilities for alternative livelihoods if experts advise that there are no viable reserves warranting development or where alluvial mining is seasonal. Therefore parallel development programmes can play important roles.

#### Dependents of diggers: women and children

In some countries, small-scale mining is a family activity. Research shows that women sort through river bed material or cook and provide other services, including as sex workers. Children go down makeshift shafts in dry river beds or dive to explore river bottom pot holes – for example in Sierra Leone or DRC.

A key goal of this programme must be: first, to provide women with more meaningful streams of income – as research shows this translates into direct benefits like improved nutrition and education for their children and second, should support children 'to transition' out of work, particularly dangerous work like diving and digging mine shafts, into education. Reforestation and agricultural schemes can support this goal.

#### Dependents of diggers will benefit in two key ways:

- **Access to education, nutrition and health care** is an important first step towards investment in the capacity/integration of disadvantaged groups and future generations.
- **The potential to develop alternative livelihoods and new legitimate sources of income.**

### Governments

Governments, particularly of war torn countries that are host to small-scale diamond mining and were implicated in conflict diamonds, have to address the challenge of post war reconstruction and transitioning the informal diamond mining sector to a formal one, capable of generating much needed foreign exchange and of creating attractive investment climates to enhance competitiveness and entry into global markets. Local governments, agencies and institutions should also benefit from institutional capacity building.

### **This programme should benefit governments at this crucial time, in four key ways:**

- **Combating money laundering and illicit money flows** in and out of the country to support illegal diamond mining would contribute substantively to creating a favourable investment climate.
- **Increased formal revenue** would provide resources for health and welfare spending and enhance the ability of African governments to deliver on the MDGs.
- **Enhanced capacity and policy** could be leveraged to improve competitiveness of other sectors, build technological competence and further the integration of Africa into the global economy.
- **Enhancing the 'brand' value and perception of African countries** and of Africa as a continent attractive to tourism and other international business interests and opportunities.

### **The diamond industry**

The industry has contributed significantly to income generation for South Africa, Botswana and Namibia on account of building an efficient industry with excellent leadership by government partners. However, the conflict diamonds revelations in 1998, if the industry had not responded fast enough, had the potential to undermine the growth of the industry in the same way as now, the association of illicit small-scale diamond mining with money laundering and even possible terrorist financing as well as human rights violations and abject poverty, could have a similar impact. Diamonds are rare and non-renewable, plus in recent years a range of new markets have been developed – both for new products with a 'social conscience' and in new countries.

As consumer demand for diamonds grows and evolves, it is in the interests of the African diamond industry to show it is dynamic and has the potential to both expand its sources of good stones and account more transparently for the positive development impacts of diamond mining. Moreover, the industry has the potential to transfer technology and skills to support the growth of a dynamic small-scale sector.

### **This programme should benefit the industry in three key ways:**

- **Enhanced reputation as an agent of development** – responsible and efficient development of the small-scale mining sector in Africa will enhance the reputation of the African diamond industry as an agent of development, at a time when it is under pressure.
- **Diversification of diamonds from Africa** – legitimisation of the informal sector would mean that diamonds from that source could be purchased by companies working in Africa and could, through proper formal African flows, provide valuable and distinct supplies to diamond purchasing clients, diversifying the already rich supply of diamonds on the market from Africa.
- **Selling technical services and skills could improve African competitiveness** – at a time when there exists some retrenching and restructuring within African diamond mining, for some the possibility of selling technical services and skills in other markets, offers a possibility of contributing to the overall competitiveness of African business, contributing to NEPAD goals.

### **Secondary industry and value added services**

At present there is very little beneficiation being undertaken in Africa, and in the past the argument was based on cost differentials where compared to cutting and polishing activities in India. With the appropriate government and industry support to get it started, it would be possible to establish a beneficiation industry and increase value added from African diamonds. Moreover, the development of a competitive small-scale sector would contribute to encourage further business investment and alternative livelihoods for African people, which would provide more money making possibilities within the formal sector.

### **This programme should benefit the secondary industry in three ways:**

- **Renewed support for beneficiation** related business development with employment potential.
- **The creation of a dynamic business environment** offering alternative legal ventures for some of those intermediaries previously 'locked into' the 'petty' end of money laundering and illicit flows.
- **Improved and more profitable livelihoods** for owners of technology or the providers of mining equipment or ICTs. This may help to absorb former intermediaries into the formal sector.

## Non-governmental organisations

Advocacy and development NGOs will benefit through greater attention to development issues and more significantly the joined-up thinking provided through multi-stakeholder engagement. Active involvement of business and governments will also bring additional funding and momentum, enable the contribution of education and microfinance solutions and better equip such organisations to be agents of lasting change.

## NEPAD

This programme should benefit the goals of NEPAD in contributing to enhance good governance in member countries as well as competitiveness. As described above, it would contribute to the realisation of the action plan of NEPAD for mineral resources, with its focus on enhancing geological knowledge, increasing value added and good governance.

## Intermediaries

A programme like this should always run in parallel to a social impact assessment (SIA) in order to be sure that outcomes are as anticipated for each stakeholder group, and that negative consequences are not unwittingly generated. This is best practice and could be undertaken through the peer review system. Some intermediaries may lose livelihoods. It is important that they are accommodated in other meaningful business such as beneficiation and technology services. There are others that are part of a money laundering criminal sector. It is unlikely that they will seek alternative employment in the diamond mining host country. Increased regulatory pressure may force them to cease activities, go into exile or find other activities. The key aim here is recognising that such international crime is difficult to control at source. However, alternative income opportunities at a national level might detract many local intermediaries, who were through circumstance 'locked into' unethical business practice, from a wholly criminal route, thus reducing illegal activity in the overall industry.

## The entertainment industry and media

A programme like this could benefit the media through providing innovative opportunities for commentary on African development with a focus on substantive solutions and partnerships. Much of the media coverage on Africa is negative, with emphasis on pervasive disease, endemic poverty, corrupt governments, exploitative business and human rights violations; and rightly, much time is spent by the media describing and analysing bad news and events, sometimes unappreciative of the development challenges at stake. However, there is much evidence from social science research that studying the reasons for exceptions to the rule – success stories – can generate useful lessons.

In the case of conflict diamonds, African governments have been at the forefront of tackling the problem. As far back as 1999, African governments staked their interest in being part of the solution. In November 1999, the former President of South Africa, Nelson Mandela stated: "The diamond industry is vital to the South African and Southern African economy. We would be very concerned that an international campaign on these issues does not damage this vital industry. Rather than boycotts being instituted, it is preferable that through our own initiatives the industry takes a progressive stance on human rights issues".

While Kimberley and the virtual elimination of conflict diamonds is an African success story (although that should not allow complacency, as it is an ongoing process) initiatives like the multi-stakeholder Diamond Development Initiative (DDI) and this proposed coalition of actors to address small-scale informal diamond mining and promote sustainable business solutions, provide stories that support the reputation of African governments and the African diamond industry. Following the success of 'Tsotsi' and 'The Constant Gardener', it is therefore hoped that films about Africa such as the forthcoming movie 'Blood Diamond' can be introduced in such a way as to show the public both the unforgettable facts of conflict and corruption and also the elements of solutions, while not damaging their fragile 'work in progress' nature.

## 9 Conclusion

**In conclusion** it is anticipated that the coalition proposed would lead to the creation of a secure, stable and sustainable business environment for one million small-scale diamond diggers in Africa, through the further legitimisation, legalisation and regulation of their activity. So long as such an endeavour has the well intentioned support of all stakeholders, it should enhance the reputation of the African diamond industry and contribute to development goals.

**Figure 1: Artisanal and Small-Scale Mining (ASM) in Africa and Development Status 2006**

