Dealing for Development?

The Dynamics of Diamond Marketing and Pricing in Sierra Leone

The Diamond Development Initiative

SUMMARY VERSION

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March 2006
Diamond Development Initiative

DDI Mission Statement

To gather all interested parties into a process that will address, in a comprehensive way, the political, social and economic challenges facing the artisanal diamond mining sector in order to optimize the beneficial development impact of artisanal diamond mining to miners and their communities within the countries in which the diamonds are mined.

Objectives

To gather and disseminate information on artisanal diamond mining.

To promote better understanding of, and possible solutions for:

- Government regulation and mining regulation;
- Distribution and marketing channels;
- Organizational aspects of artisanal production;
- Legitimate and transparent distribution channels;
- Organization among artisanal miners;
- Free and open markets for artisanally mined diamonds.

To promote wide participation in the process, including governments, donors, industry and development organizations.

Acknowledgements

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Several studies have described production in contemporary artisanal diamond mining.\(^1\) By contrast, the pricing and marketing of diamonds within an artisanal diamond mining country has been rarely explored.\(^2\) This study focuses on the dynamics of the internal movement and trading of artisanally mined diamonds in Sierra Leone. The specific objectives are to understand what determines the price of diamonds at each step of the mining and trading system, how and why different cultural and ethnic groups are involved, and the dynamics of revenue flows within the system. The overall aim is to determine how current structures and prices might be influenced in order to ensure that diamond diggers, miners, and communities benefit more from the millions of dollars worth of diamonds they produce.

The research was conducted in Freetown and the principal diamond districts – Bo, Kenema and Kono – from January 19 to February 10, 2006. The research involved document analysis and semi-structured interviews with diggers, miners, dealers, exporters, and their agents; with informal dealers, representatives of government and the Peace Diamond Alliance, international donors, and industry experts. The report also draws on research conducted from June to August 2004, by Estelle Levin, Helen Temple and Ansumana Babar Turay, funded by USAID and Canada’s Social Sciences and Humanities Research Council.\(^3\)
Part One:  
An Overview of the Artisanal Diamond Industry in Sierra Leone

The marketing chain studied in this report comprises diamonds produced by small-scale and artisanal diamond miners, and such diamonds as may be imported – legally or illegally – into Sierra Leone. In 2005, nearly 2,400 artisanal mining licenses were granted in Sierra Leone. Almost all diamond mining operations are small-scale, with the exception of Sierra Leone Diamond Company (SLDC) which has plans for industrial alluvial mining, and Koidu Holdings, which does kimberlite mining.


Artisanal diamond mining is done using rudimentary tools. Labourers are either employed in exchange for a wage, support, a share of the gravel, or a combination of these. The most common system is the tributor system, in which supporters buy the mining licence, provide the necessary tools, and give the diggers rice and cash (Le.500-Le.5,000 – between US 20 cents and $1.80) for their daily subsistence. The tributor system rarely benefits the labourers unless they find a large stone, if the stone is not then stolen, and if the gang leader can argue for a realistic price from the licence-holder. Increasingly, diggers work as contract labour. Some diggers prefer the security of a regular wage after having mined as tributors, or in view of declining productivity in certain areas.

No concerted geological survey of Sierra Leone’s alluvial fields has been done since P.K. Hall’s exploration of the country’s South-East in the 1960s.

Supporting

In the early days of diamond mining in Sierra Leone, diamondiferous gravels were close to the surface. By the 1960s miners had to remove greater volumes of overburden to access the gravel. The costs of production increased, and cash-strapped miners turned to their buyers and local businessmen for financial support.

Supporters are still necessary today. Miners have little choice but to approach their buyers for help. The banks say they will not lend to miners because of the lack of collateral, the absence of official reporting and statistics by which they might ascertain risk, and their belief that miners and labourers are not responsible borrowers.

All legal and illegal dealers and their agents, and most exporters and their agents, financially support
mining. Most supporters are themselves financed by wealthier dealers or exporters. There may be three or more layers of supporters in a chain, all of whom expect their own profits. This severely affects the prices the digger eventually gets for his winnings.

There are many different types of supporter-client relationship in the diamond chain. Support may be formal or informal, substantial or piecemeal, occasional or regular. Broadly speaking these diverse styles of support fit into two categories: one based on a formal system of capital provision, and the other based on the customary system of patronage and relief.

**Committed Support – Capital Provision**

Supporters sometimes enter into formal arrangements with miners with the conditions of their agreement written, witnessed, signed and lodged with the MMR. Or a memorandum of understanding may be lodged with the UMU (see Figure One, page 4).

Formal capital provision is the system of support used by Lebanese and foreign licensed dealers. It is a business arrangement, intended to cover all mining-related expenses, although the supporter may also offer the client additional forms of assistance when required, such as assistance with medical expenses. The support is not a loan; it is a direct investment, and the supporter bears the financial risk entirely. This understanding, and the freedom that supported miners have to sell their diamonds elsewhere, challenges the characterisation of the supporter-client relationship as one of exploitation and debt bondage.

Sierra Leonean and ECOWAS (Economic Community of West African States) dealers usually give informal but committed support without a written agreement. These relationships are based more on trust, good-will or a pre-established sense of reciprocity, for example, amongst family members.

Profits are split after costs have been accounted for, but cheating is commonplace. The miner may sell his diamonds to someone other than his supporter. Sometimes the supporter cheats the miner and diggers out of their share if the miner has not kept a careful tab of expenditures, and does not have good valuing skills.

**Informal Support – Tipping and Relief**

Informal support is irregular and is given without commitment. Lebanese and Sierra Leonean dealers sometimes offer relief in this manner, but local people believe that a Maraka is more likely to give this type of support. Although the obligation is small on either side, there is still some expectation that recipients will bring their winnings to the supporter. It is common for diggers and miners to seek support from more than one person in this way. This lack of structure and obligation can lead to conflict, but it also gives people more options when selling a stone.

It is in the dealer’s interests to give occasional additional support. It promotes the impression that he has ready cash, and it buys free advertising through word of mouth. People sell to dealers they know give occasional support, in case they hit hard times and need assistance. Oftentimes, however, it is the dealer who has given the least support who finds the diamond on his desk, as the miner may prefer to sell to the supporter who has invested the least in his ventures, hoping to maximise his profit. This wide peppering of support is actually more productive than more capital-intensive formal support systems.
Figure One: UMU Memo of Understanding Between a Financier and His Workers

MEMORANDUM OF UNDERSTANDING (MOU)

This serves as the MOU between the management of KAWAMA MINERS ASSOCIATION (KMA) herein referred to as supporter and the under mentioned herein referred to as workers:

<table>
<thead>
<tr>
<th>No</th>
<th>Name</th>
<th>Position</th>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Atah Manga</td>
<td>Manager</td>
<td>Amang</td>
</tr>
<tr>
<td>2</td>
<td>Titus S. Jaha</td>
<td>Manager</td>
<td>Jaha</td>
</tr>
<tr>
<td>3</td>
<td>Tamama Kombaye</td>
<td>Miner</td>
<td>Kehin</td>
</tr>
<tr>
<td>4</td>
<td>Ismael Dukuray</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Sheku Mansaray</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Tambu Sunnya</td>
<td></td>
<td>D.P.</td>
</tr>
<tr>
<td>7</td>
<td>Kaka Banjali</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Bobson Sessay</td>
<td></td>
<td>A.J.P.</td>
</tr>
<tr>
<td>9</td>
<td>Muray Venehautun</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Sanj Mattia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Jospe Komba</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Sanya Koroma</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Safa Fenday</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Alex A. Fenday</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Atah Mansaray</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

That the supporter shall do the following:–
- Acquire license(s)/sites for mining operations.
- Make all relevant operations legal.
- Provide all mining tools and equipment.
- Pay feeding (all inclusive) at Le 5,000 per day, per labourer/worker.
- Meet all medical requirements of workers.
- Give 40% of mutually valued proceeds to workers.

The workers.
- Go to the operation site(s) on time.
- Work according to mutually agreed work scheduled.
- Take care of mining tools and equipments.
- Submit medical bills with receipts as and when necessary.
- Take adequate care of proceeds
- Prepare and submit technical and financial reports.

On behalf of Management

Tambu Manga

Witnesses

1. Sanjo Sineh
2. Rebecca Korna
The Cost of Formal Support

Dealers and exporters are quick to emphasise the risks in supporting, and talk a lot about how they lose more than they win. It stands to reason, however, that they would not remain long in a business that only lost money. One dealer told the authors of this report that he spends over $100,000 a month supporting 60-70 licences, only 10% of which are profitable. The typical cost of mining one acre is about $1500 per month. Presuming a year’s mining consists of two seasons of five months, then the annual cost of support would be $15,000 per acre. According to the Chief Mines Engineer in Kono, however, the minimum investment is now $25,000 per acre.

In 2005, about 2,400 mining sites were licensed for artisanal mining. If we take the average cost per acre at a more conservative $20,000, and given that licences can cover up to five acres, then the total expenditure on licensed mining alone in 2005 would have been about $12 million, presuming an average acreage of 2.5 acres. This is a small investment against an export value of $116 million in artisanally mined diamonds.

Alternative Ideas

In partnership with the United Mineworkers Union (UMU), DFID is proposing that diggers receive an acceptable (highest possible) minimum wage and level of support, along with a nominal bonus for diamonds that are found. The bonus could discourage stealing, whilst the assurance of optimal wage and support would improve livelihood security. Determining the value of the goods, however, could be problematic and would have to be done carefully.

USAID’s Integrated Diamond Management Program (IDMP) has been developing a cooperative mining model. Direct financing and lending by an international buyer, and the fixing of prices to 10% below the estimated world market price, aims to guarantee cooperatives a higher price for their diamonds by bypassing the dealer layer, where most of the profit is made, and by removing the need for price negotiation. The scheme was first implemented in 2005 with five cooperatives mining an acre each. $50,000 was loaned to the cooperatives, but the value of diamonds produced was a small fraction of this amount. Several reasons were given: too few sites were mined to spread the risk sufficiently; mining in 2005 was expensive owing to heavy rain; the allocated land was not prospected and was not very productive; the PDA did not find a way to guarantee the security of the loan; and there was alleged malpractice by employees of the PDA and/or executive members of the cooperatives. Nevertheless, cooperatives and the IDMP remain potentially useful models for improving the potential for artisanal diamond mining. A failed year does not necessarily mean a failed model.
The standard artisanal diamond marketing chain promoted by the law is schematised in Figure Two. The simplest chain is when a miner sells directly to an exporter. The most complex chain is miner → dealer’s agent → dealer → exporter’s agent → exporter. Theoretically speaking, the more people who buy or facilitate the buying of the diamond, the less profit is available at each exchange. Seemingly, the simplest chain should ensure that the miner receives more for his diamond. In practice, it actually provides the exporter with an opportunity to make more profit, as the miner has inferior pricing and negotiating skills.

The chain is actually more complicated than this: there are other actors, there are multiple passages a diamond might go through, and some actors have multiple roles.

Figure Two: The Artisanal Diamond Supply Chain, in Theory

![Diagram of the Artisanal Diamond Supply Chain, in Theory](image-url)
The "Open-Yai" Diamond Peddlers and Illegal Dealers

Members of the "Open-Yai" live mostly in the bigger towns and act as middlemen between diggers/miners and dealers. The Open-Yai comprises ECOWAS and Sierra Leonean citizens. It consists of diamond peddlers (ńikońiko, banabana, “jewellerman”) and illegal dealers. The Open-Yai are renowned for dealing illegally and smuggling. The peddlers go into the bush in search of miners or labourers with stones to sell.¹⁰

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¹⁰ Dealing for Development? • The Dynamics of Diamond Marketing and Pricing in Sierra Leone
They either buy the stones directly or introduce the seller to an appropriate buyer or coaxer (see below).

People sell to diamond peddlers and illegal dealers when:

1. They do not have the knowledge or confidence to approach a licensed dealer;
2. They are in the bush, want to sell quickly, and do not want to go to one of the main towns;
3. They have stolen a gem and want to make a sale as quickly and discretely as possible;
4. The peddler or dealer has given them support; and/or
5. The peddler or dealer can convince them that he will give them a better price.

When a special stone hits the market, the Open-Yai are the first to know, because they will usually offer more than the supporter. Peddlers sell their stones to illegal dealers, but also to licensed dealers and their agents, who then channel the illicit stones into the legal stream. They also sell to licensed miners who wish to improve their parcel in order to meet a legal dealer's preferences. Otherwise, the Open-Yai's diamonds are smuggled out of the country and sold in another ECOWAS state where Sierra Leonean diamonds may fetch a better price, or they may be taken to major buying and cutting centres.

The Open-Yai provides three positive services:

1. It increases competition in the buying market;
2. It diverts illegal stones into the legal sphere (and vice versa);
3. Sierra Leoneans who want to learn how to value or trade in diamonds, and who may not otherwise get the opportunity, can do so in the Open-Yai. Some of these people go on to become licensed dealers or agents.

In 2004 it was suggested that the Open-Yai be legalised through the creation of brokering licences which could be paid for on a monthly or quarterly basis. This scheme would increase competition in the legal market without marginalising those who trade diamonds on a smaller scale, and who need more experience and a higher turnover to move into licensed dealing. Despite the suggested cost of such a broker's licence being a tiny $50 per quarter instead of the $2000 per annum a citizen dealer must pay, many members of the Open-Yai protest, not very credibly, that they cannot afford even this amount.

Coaxers

The “office coaxer” works for a dealer. He acts as a receptionist to encourage miners to stay, or to return with their parcel. He looks for miners with stones to sell, and is a cultural bridge to Sierra Leonean miners for non-African buyers. The coaxer makes the miners feel comfortable, welcome and secure, and thus they come to believe the dealer is trustworthy and likely to give them a good price. If the deal is struck, the coaxer receives a commission and/or a monthly wage from the dealer. The “street coaxer” is a diamond peddler who finds sellers and convinces them he knows a fair dealer.

Legal Dealers and their Agents

The MMR classifies dealers into three categories: citizen (including naturalised foreigners), ECOWAS citizen, and foreign national. In fact, it is more useful to break the dealers into four broad categories: indigenous citizens, ECOWAS citizens, Lebanese (both naturalised and foreign), and foreign nationals. Of these categories, anecdotal evidence suggests that Marakas, mainly from the Gambia, Senegal and Mali, dominate the dealer/supporter category, when one includes both legal and illegal dealerships. The legal trade is dominated by the Lebanese.
Some analysts have suggested removing or consolidating the dealer layer altogether. But dealers argue that they are necessary to the industry as it currently operates because it is easier for an exporter to cheat a miner, and if there were no dealers, there would be minimal support for miners and diggers. This might not be a bad thing. Without support, the only artisanal mining would be on well-prospected sites of proven payability, managed by competent miners. This would streamline the industry, free up marginal lands for other uses, and ensure that greater profit were made by both the exporter and the miner. This might attract international players into the market who would be prepared to guarantee miners rates pegged to world prices. But it would certainly drive most of the dealers underground and could lead to increased smuggling.

Fly-by-nights come principally from the former Soviet Union (especially Russia, Ukraine and Armenia), but also from Europe (especially the UK and Belgium), the USA (especially African Americans), Israel, and Lebanon.

**Fly-by-nights: International Buyers**

‘Fly-by-nights’ are international buyers who dip in and out of the country to buy diamonds. Some work for legitimate diamond businesses. Many others come with a bigger, criminal agenda, and abuse the system in order to launder money or to buy diamonds for other uses. The money launderers will either buy a dealer’s licence from the Ministry or do their buying in an existing dealer’s office.

Lebanese dealers and exporters claim they do not do business with fly-by-nights. One Maraka and some Sierra Leoneans, on the other hand, told the authors of their preference for selling to these people because they offer good prices. Some fly-by-nights can afford to pay above-market prices because they are laundering money, or because they are buying for a different market from the one used by local dealers.

**Exporters and their Agents**

Although the international market has remained steady in recent years, exporters have been telling dealers and exporters’ agents that international prices have fallen, in order to justify paying less for diamonds.

Nevertheless, the official export figures for 2005 were the highest since 1979, when the country exported 855,000 carats. In 2005, Sierra Leone officially exported $142 million of diamonds, about 82 per cent of which passed through the hands of artisanal diamond exporters. Between 2004 and 2005, exports through licensed diamond exporters fell from 612,500 to 540,732 carats (12%), but grew in value from $112.7 million to $116.2 million (3%). The average per carat value grew by 17%. There are three possible explanations:

1. Since most smuggling involves valuable diamonds, an increase in average per carat value may suggest that a lower proportion of high quality Sierra Leonean diamonds are being smuggled out;
2. It may be that “specials” from other countries, such as Guinea, Liberia or Côte d’Ivoire, are being exported as Sierra Leonean diamonds;
3. The GDD updated its price book (which was based on 1996 prices) in early 2005, altering overall export performance by value, but not by weight.ii
Table 1: Diamond Exports by Licence Type 2003-2005

<table>
<thead>
<tr>
<th>TYPE OF LICENCE</th>
<th>CARATS</th>
<th>VALUE ($)</th>
<th>TAX* (3 / 5.50 / 6%)</th>
<th>VALUE/CARAT ($/ct)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diamond Export</td>
<td>540,731.52</td>
<td>116,183,451.12</td>
<td>3,485,503.53</td>
<td>214.86</td>
</tr>
<tr>
<td>Diamond Mining</td>
<td>11,291.68</td>
<td>3,236,747.70</td>
<td>194,204.86</td>
<td>286.65</td>
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<tr>
<td>Kimberlite Mining</td>
<td>116,665.22</td>
<td>22,510,716.03</td>
<td>1,238,089.38</td>
<td>192.95</td>
</tr>
<tr>
<td>Special Dispensation</td>
<td>20.72</td>
<td>9,329.00</td>
<td>559.74</td>
<td>450.24</td>
</tr>
<tr>
<td>TOTAL</td>
<td>668,709.14</td>
<td>141,940,243.85</td>
<td>4,918,357.52</td>
<td>212.26</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diamond Export</td>
<td>612,499.53</td>
<td>112,654,805.55</td>
<td>3,379,644.17</td>
<td>183.93</td>
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<tr>
<td>Diamond Mining</td>
<td>782.33</td>
<td>134,347.54</td>
<td>8,060.85</td>
<td>171.73</td>
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<tr>
<td>Kimberlite Mining</td>
<td>78,458.29</td>
<td>13,859,589.23</td>
<td>762,277.41</td>
<td>176.65</td>
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<tr>
<td>Special Dispensation</td>
<td>16.77</td>
<td>3,891.94</td>
<td>233.52</td>
<td>233.52</td>
</tr>
<tr>
<td>TOTAL</td>
<td>691,756.92</td>
<td>126,652,634.26</td>
<td>4,150,215.94</td>
<td>183.09</td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diamond Export (TOTAL)</td>
<td>506,723.37</td>
<td>75,969,753.32</td>
<td>2,279,092.60</td>
<td>149.92</td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diamond Export (TOTAL)</td>
<td>351,859.23</td>
<td>41,732,130.30</td>
<td>1,251,963.91</td>
<td>118.60</td>
</tr>
</tbody>
</table>

* Tax levels vary at different stages in the pipeline.

Table 2: Legal Artisanal Diamond Exports 1992 to 2005

<table>
<thead>
<tr>
<th>CARATAGE</th>
<th>VALUE ($)</th>
<th>P/CT</th>
<th>CERTIFICATION</th>
</tr>
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<tr>
<td>1992</td>
<td>331,800.11</td>
<td>94</td>
<td>No certification scheme</td>
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<tr>
<td>1993</td>
<td>157,996.58</td>
<td>128</td>
<td>Certificate of origin</td>
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<td>1994</td>
<td>255,107.88</td>
<td>118</td>
<td>KP certification scheme</td>
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<tr>
<td>1995</td>
<td>213,775.91</td>
<td>103</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>270,452.32</td>
<td>105</td>
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</tr>
<tr>
<td>1997</td>
<td>114,438.84</td>
<td>103</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>15,818.04</td>
<td>113</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>9,320.00</td>
<td>134</td>
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<tr>
<td>2000</td>
<td>77,372.39</td>
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<td></td>
</tr>
<tr>
<td>2001</td>
<td>222,519.83</td>
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<td></td>
</tr>
<tr>
<td>2002</td>
<td>351,859.23</td>
<td>119</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>506,723.37</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>2004*</td>
<td>612,499.53</td>
<td>184</td>
<td></td>
</tr>
<tr>
<td>2005‡</td>
<td>540,731.52</td>
<td>215</td>
<td></td>
</tr>
</tbody>
</table>

* Excludes small-scale mining company exports
Sierra Leone has experimented with a variety of systems for exporting artisanally mined diamonds, including public and private monopolies and the free market. A tender system was introduced in 1959 but was rarely used. Tender systems are thought to be unfeasible because miners and dealers need a fast turnover in order to maintain liquidity.

The introduction of bourses, in Freetown and in other diamond buying towns, would perhaps encourage greater competition amongst other things. They could also provide:

1. A venue for centralising all diamond marketing activities and disseminating information;
2. A location for an independent valuer;
3. A ‘one-stop-shopping’ centre for licensing and registration of mining, for marketing and other supporting activities;
4. A place for mining and marketing-related training; and
5. A commercial centre for traders and banks.

Forbidding diamond trading outside of the bourse would require the criminal fly-by-nights to go about their operations differently – or at least more explicitly, and it would improve opportunities for monitoring.
Part Two: Diamond Pricing and Revenue Flows

Pricing

In order of importance, Sierra Leonean diamond buyers base their prices on:

1. The quality of the diamond and its value on the international market;
2. The seller’s knowledge;\(^{14}\)
3. The seller’s position in the chain (and what he might get from the competition);
4. Their costs (taxes, fees, supporting, bank/currency charges, office costs, bribes and tips, advertising, association fees);
5. Whether the stone is of dubious progeny, i.e. stolen, smuggled, or illegally mined.

Valuing a diamond requires a careful but often subjective assessment of weight, colour, clarity, the likely yield and shape of the finished product, and an understanding of the upstream market. The value per carat increases exponentially with the size of the diamond. It is therefore difficult to say how the value of a “typical” diamond will change as it moves along the supply chain. In very approximate terms, however, a good quality, one carat rough gem will bring the digger $130, the miner $370, the supporter/dealer $1000, and the exporter $1100.

With just 13 exporters competing for diamonds from 270 dealers and their agents, the exporters make the most money in terms of actual cash. Exporters appear to operate at margins of 10-15% gross, because the dealers’ expertise is close to their own. Once costs are accounted for, they say their profit may be as low as three to five per cent. In fact, it is likely to be between five and ten per cent on consignments of commonly-found stones, and much more on “specials” and diamonds exceeding five carats. Exporters make the largest profit margin when they buy directly from the miner.

In a single transaction the dealer typically has the largest profit margin. Dealers may make 100% or more on “specials”, although the average figure may be closer to 50%. Dealers say that it is extremely difficult to make a profit on gems under about two carats, as miners price these with confidence, and will move from place to place to get the best price. At the most, dealers say, they will cover their costs and they may even sell at a loss when buying a small gem. Paying high for a small stone, however, encourages the miner to believe that a dealer will pay well for a big stone.

Dealers claim that the licence-holder makes the most money because he bears none of the financial risk, and his knowledge is far superior to that of the diggers. When the cost of support is considered, it seems that the dealers have a lot to lose as well as gain. However, the actual logic of support sustains the dealer’s profits, as he continues to attract other supporters’ diamonds. Furthermore, a dealer has more chance of coming across a profitable gem than a miner, as there is a greater certainty that good diamonds will come to him.

By working backwards from official export statistics, and using profit margins suggested anecdotally, it is possible to estimate the average turnover and profits at each stage of the legal chain. This is a vastly simplified and hypothetical procedure, whose utility lies in its ability to demonstrate relative and possible gains at each step.
Administrative Costs

The main government levies on the diamond industry are licensing fees and an export duty. An artisanal mining licence costs over Le.800,000 (about $270), and generally exceeds Le.1 million (about $330) when ‘handshakes’ are accounted for. Licensed miners and supporters factor in the cost of the licence when selling and buying the first stone(s) from their plots.

Dealers’ licences cost $2,000 (Sierra Leonean national), $2,500 (ECOWAS), and $5,000 (foreign national). Dealers’ agents pay $1,000 (Sierra Leonean) and $1,500 (ECOWAS). Dealers presume that costs will be covered by aiming for the highest possible profit at all times. Larger exporters have a minimum margin in order to factor in these costs. An exporter’s licence costs $40,000/annum, and an agent’s licence is $5,000/annum.

The three per cent “royalty on export of diamonds” is actually not a royalty, but an export duty. This duty is consistent with regional export taxes. It is one of the principal costs that exporters consider when pricing.

A further significant levy is income tax. Corporate income tax is calculated at 30% of income after applicable deductions. However, the holder of a mining lease pays a minimum income tax of 3.5% where taxable income is below seven per cent of turnover. Should an individual working in the diamond sector not provide satisfactory returns to the National Revenue Authority, minimum taxes are levied.

In September 2005, the National Revenue Authority announced that it was going to collect income tax from diamond exporters for the years 2003 to 2005. Those unable to provide satisfactory books would...
have to pay two per cent of the value of their diamond exports in lieu of a tax assessment based on profits. Most did not have books to submit (or would not submit them). Since most had not paid this tax for two years, and since the fine for non-payment is one per cent, exporters found themselves facing an income tax of three per cent of their export value for 2003, 2004 and 2005, effectively raising the export duty, in their view (and incorrectly) to six per cent. Inevitably, dealers and miners will pass on any new cost to the diggers. At the time of writing, the Exporters’ Association was in negotiations with the NRA, having requested that the years 2003 and 2004 be forgiven and forgotten.

Diamond dealers and their agents pay local taxes, amounting to $167 per annum in Kono (town council tax on the dealer’s office (Le.400,000) and tax on the diamond scale (Le.100,000). In Bo dealers pay Le.200,000 tax to the town council.

Currency

The official currency is the leone. However, the dollar is freely available, and is widely used as an alternative currency. Diamond exporters are required to finance all their diamond operations using US dollars. Nonetheless dollars and leones are used interchangeably in the marketing chain. Currency is a matter of preference and availability, not legality. Diggers, miners and those in the non-licensed Open-Yai prefer to deal in leones. Licensed dealers prefer the currency they use to buy diamonds.

Exporters, however, can add significantly to their profit by manipulating the exchange rate, which can differ by as much as 30% depending on the size of the note. US$100 in one dollar bills yielded Le.200,000 from a “dollar boy” in Freetown in March 2006, while a $100 bill bought Le.300,000. Forex differentials are similar. Banks offer different rates as well, depending on the size of the transaction.

Revenue Flows

Banking system

Dealers use banks to receive money from exporters, and to keep money that they do not need on short notice safe. The majority, however, especially ECOWAS nationals, prefer to work in cash only. Banks are generally unattractive to those in the diamond trade because:

1. Illiteracy rates are high amongst buyers;
2. The banks do not always have immediate large cash facilities on short notice, especially if the seller wants dollars or another currency; large amounts of US dollars are available but have to be imported from Europe;
3. The street exchange rate remains significantly better than the bank rate.

The banks too generally find the diamond business unattractive, saying that it is difficult to enforce proposed legislation requiring all diamond transactions above $500 to go through the bank. The Union Trust Bank has high credit requirements, demanding easily convertible collateral (treasury bearer bonds, foreign bank accounts). And the UTB does not accept land or real estate as security for loans, because of the complexity of land and property laws in Sierra Leone.

On the other hand, a Nigerian bank, the Guaranty Trust Bank (GTB), has actively wooed diamond buyers by:

1. Importing a large quantity of dollars from their correspondent banks, which they then sell to diamond exporters at attractive rates;
2. Instituting a system of 24-hour money transfers from Europe, and much faster transfers to and from provincial towns; and
3. Providing overdraft facilities for exporters, allowing them to bridge the gap between buying diamonds and receiving funds from overseas buyers.

Within a year or two, the GTB has attracted most of the diamond exporters. Today, it says, diamond dealers and exporters constitute about 20 per cent of its clientele and about 60 per cent of the cash passing through the bank.

Within the banking community, however, there are rumours of money laundering and unusual business practices associated with some of the newer banks, and there are genuine grounds for concern. Until there is confidence that the banks are properly supervised, encouraging diamond buyers to do business through the banks will not limit opportunities for the industry to be used for supporting criminal activities.

**Cash Flows**

Transportation of cash dollars across national borders is commonplace in West Africa. It is highly probable that the majority of this is smuggled, given the predatory nature of border authorities. As noted above, foreign exchange offices and ‘dollar boys’ sell their leones at rates substantially below the official exchange rate for small bills, but above it for large bills, which are easier to transport.

**Profits and Investment**

In the diamond areas it is hard to obtain credit for anything other than mining. Sierra Leonean diamond marketers invest their profits in property, manufacturing, agriculture – and more diamond production. Dealers invest in complimentary businesses, usually selling clothes, mining equipment, and electronics, as well as livestock and property, in the diamond areas and elsewhere.

Options for serious productive investment within the country are limited, especially for Sierra Leoneans who are not of indigenous African descent, as they do not enjoy the same rights. This issue of citizenship is extremely important to the Lebanese community. Members claim that if they had equal rights, there would be greater investment of profits in the country. Given that the Lebanese are key economic players, this could inject much-needed capital into non-diamond ventures.

This issue of citizenship ties in with one of the biggest impediments to growth in the diamond areas, and in the country more generally: capital flight. The diamond industry is currently the most important sector in the economy in terms of its export value. Yet the people making the greatest profits are Marakas and Lebanese, most of whom retain substantial personal and business interests outside the country.

Capital flight could perhaps be countered if the issue of citizenship were to be addressed, and if the country were to improve its relative competitiveness as a site for investment by those in the diamond business. This could also attract international investors. The country has great potential for fisheries, agriculture, gold mining, and tourism, all of which could bring in foreign export earnings.
Part Three: Conclusions and Recommendations

Conclusions

Diamond wealth does not benefit diamond labourers nearly as much as it might, nor does it lead to development in diamond communities, for the following reasons:

1. Local economic stagnation because of:
   a) Capital flight (related to an unattractive and insecure investment environment, citizenship issues, and the greater portion of diamond profits accruing to individuals whose interests lie in other countries);
   b) Homogenisation of the economy around the diamond industry;
   c) Absence of credit opportunities for the pursuit of alternative and supplementary livelihoods in diamond areas;
   d) Absence of NGOs, donor organizations and government bodies able and willing to promote alternative livelihood investments; and
   e) Government’s attitude to the industry generally, being to extract as much revenue as possible from it directly, rather than to use it as an engine to nurture other economic sectors and thus a larger, revenue base.

2. Frequent duping in the industry because:
   a) The preferred system of payment in artisanal production allocates a discretionary share of diamond profits to diggers, dependent only upon their limited ability to negotiate a fair price;
   b) There is a large disparity in the relative expertise of the negotiating parties, particularly between digger and miner, and miner and dealer;
   c) In a chain where trust is so evasive, and yet so necessary, people are easily duped by those they come to trust;
   d) The law is unequally applied and so people have limited avenues for seeking justice; this promotes dishonesty as a means of advancement; and
   e) Difficulty in the valuation of speculative stones at the next point of sale and a lack of credible accounting leads buyers to push prices as low as possible in order to maximize profit.

3. Declining returns from artisanal operations because:
   a) There is a lack of prospecting for potential sites;
   b) Virgin lands tend to have deep gravel, which increases costs; and
   c) Exhausted or unpayable land is re-licensed and re-mined.

Recommendations

Increasing revenues for diamond labourers and communities would significantly improve their quality of life. It could mean the difference between hunger and satiation. But increased income will not produce sustainable development if it is spent principally on services and goods provided by businesspeople who invest their own profits elsewhere. Increasing labourers’ and mining communities’ revenues is only the first step in bringing about development through diamonds. The next step is using that wealth to stimulate economic growth by converting diamond industry profits into other forms of
productive capital, capital that promotes local economic diversification and increased productivity. This report shows that diggers' earnings and a wider basis for growth could be enhanced by making changes in the allocation of land, in the organisation and financing of production and in the mode of purchasing, and by promoting complementary and alternative livelihoods. Taxes should be collected at all levels of the value chain not just export duty from exporters. If everyone in the chain paid some form of tax then some of these taxes could be collected locally and used locally.

**Land Allocation and Use – Increase Productivity**

1. Enable miners to use the most appropriate technology for optimally mining their land;
2. Make geological prospecting and proof of productivity a prerequisite for licences in areas that are non-replenishing and for land that has been mined for more than a standard number of years;
3. Convert land that is no longer economically viable for artisanal mining to other productive uses;
4. Currently the US Geological Survey is assisting with geological surveys in Liberia. Such assistance to Sierra Leone would be greatly beneficial, helping miners to work land that is economically viable;
5. Where land can still be mined productively small-scale mining companies should only be given preference over artisans if it is agreed that a portion of the company’s profits is meaningfully invested in the community;
6. Introduce regulations to withhold licences from anyone reporting zero returns, and from those who have not rehabilitated their mining plots;

**Organisation and Financing of Production**

1. Reduce the number of diggers – so that employers have to compete for labour – by creating alternative, attractive livelihood options and/or by establishing training courses that can give a mineworker advantageous qualification;
2. Establish model contracts for fully supported operations, and make them freely available at Ministry of Mines regional offices;
3. Discourage or prohibit the allocation of diamond profits to labourers in any way other than through an agreed, predetermined share of net profits;
4. Build the capacity and credibility of the United Mineworkers Union as protectors of labour and partners of business;
5. Encourage skilled mineworkers to work as contract labour with small-scale mining companies which have signed up to the UMU’s minimum standards of employment, or make membership in the UMU compulsory for all companies wishing to explore, prospect or mine for diamonds (or any other mineral) in Sierra Leone;
6. Examine micro-credit and other projects in artisanal mining outside Sierra Leone (e.g. gold in South America), in order to build on experience that might be transferred to diamond production;
7. Encourage socially and environmentally responsible mining companies;
8. Continue to experiment with cooperative mining as a preferable model of production for ensuring best practice and optimal returns to labourers.
Alternative Modes of Purchasing

Investigate the feasibility of:

1. Provincial for-profit and not-for-profit multi-functional bourses. The Ghanaian bourse is a possible model;

2. Creating multi-functional diamond centres that could house a bourse, as well as facilities for banking, licensing, independent valuing, training, information dissemination, and other development-related activities;

3. Licensing industrial alluvial and small-scale mining companies to purchase a portion of their own production from artisanal mining operations, pegged at prices 10% below market value;

4. Diamond peddler licences as a strategy for formalising the small-time diamond dealers who comprise the Open-Yai, with special attention to assistance in formalizing money transfers in ways that avoid costs associated with corruption and rents.

Alternative and Complementary Livelihoods

Some people mine because it is their preferred option. Others do it because they have no alternative. With the desire to do something other than mining comes the potential to diversify and strengthen the economies of diamond mining communities. It could also help to increase the range of viable occupations in mining communities, providing people with greater choice. The DDI could assist in this by lobbying development NGOs and donors to promote alternative and complementary livelihood projects in artisanal diamond mining communities.

Other Recommendations

1. Development organizations interested in the long-term stability of Sierra Leone and its diamond areas should promote good governance through:

   a) Training and building the capacity of government officials working in the diamond sector (for example, through Management System International’s proposed provincial technical colleges);

   b) Improving the capacity of the MMR to monitor and enforce the law in relation to diamond production and marketing, so that the regulatory environment is predictable and reliable;

   c) Improving the proper and timely collection and dissemination of information and statistics; and

   d) Holding government officials to account for corruption, malpractice and inefficiency.

2. Donors should support the efficient development and implementation of the planned cadastre system;

3. The government of Sierra Leone should place stricter controls on the allocation of dealing and exporting licences, and on the performance of licensees. Where it is not already being done, key performance indicators (KPIs) could be established by the Ministry e.g. minimum value export quotas on a quarterly, semi-annual, or annual basis;

4. The Gold and Diamond Department, perhaps with assistance from donors, should develop an electronic price book and make it publicly available;

5. The government should reconceptualize and redefine the principal role of the diamond sector from a revenue source to an engine of wider economic growth;20

6. The government should create an enabling investment environment that rewards people for investing outside of the diamond economy in diamond mining and marketing areas.
References


Notes

3. Full details can be found in Levin (2005) and Temple et al. (2005).
4. Labourers might also be supported in their health, accommodation, and transport, and sometimes their funeral expenses, children’s education and family welfare.
5. The daily wage is >5,000 Leones (US$1.67) in artisanal operations and Le.10-15,000 (US$3.33 - $5) or Le.6-7,000 (US$2.33 - $2.66) for skilled and unskilled labour respectively in small-scale operations. Companies which have joined the UMU pay a minimum of Le.10,000 a day for unskilled (about Le.200,000 per month, equivalent to $67) and Le.300-600,000 a month ($1-200) for skilled labour.
6. Hall 1968; It is impossible to get an accurate estimate of diamond production in Sierra Leone, which is something that the cadastre system (a land registry designed to effectively administer and enforce mineral rights) is attempting to remediate. Production is likely in the region of $200–250million, or 1,000,000 to 1,250,000 carats.
7. In fact, while the cost may be this high in Kono District, which has been heavily worked for generations, the cost is likely lower in other parts of the country.
9. A number of studies have been done on diamond marketing in Sierra Leone. See Ketelaar 2005, Ketelaar and Koroma 2005, Even-Zohar 2005, Marriott 2005, Hope 2005
10. Only Sierra Leoneans who are indigenous Africans can go to the mining areas with the intention of buying diamonds.
12. Adapted from a table by John Kanu.
14. The Peace Diamond Alliance has been trying to address this though its valuing courses and the establishment of buying standards for the cooperatives’ financier. USAID has paid for an independent diamond valuer to have an office in the MMR in Koidu so that miners can have their stones valued before going to their preferred buyer. Ketelaar and Koroma (2005) also suggest that the GDD develop an electronic price book.
15. 50 diggers per acre x 2400 licensed miners is 120,000 diggers.
17. Exporters allege that the Ministry of Mines had led them to understand that a quarter of the 3% export duty was effectively an income tax (equivalent to 0.75% of export value). In fact income tax is not the same thing as export tax, and the exporters’ complaint is largely invalid.
18. It is impossible to get an accurate estimate of diamond production in Sierra Leone, which is something that the cadastre system (a land registry designed to effectively administer and enforce mineral rights) is attempting to remediate. Total production, including smuggled goods, is likely in the region of $200–250million.

Dealing for Development • The Dynamics of Diamond Marketing and Pricing in Sierra Leone
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