Diamonds for Development

Background Paper

The current state of diamond mining in the Mano River Basin and the use of diamonds as a tool for peace building and development

Diamonds for Development
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About International Alert

International Alert works to build sustainable peace in areas affected or threatened by violent conflict. We work in twenty countries or territories around the world, including the African Great Lakes, West Africa, the Caucasus, the Andean Region, Sri Lanka, Nepal and the Philippines. We also work at government, EU and UN levels to to shape policy and practice, focusing on issues critical to addressing the underlying causes of conflict, such as business, humanitarian aid and development, gender, security and post-conflict reconstruction.

The West Africa Programme

International Alert has been working in West Africa since 1993 on a range of projects aimed at strengthening the capacity of both civil society and government at local, national and regional levels to participate in and contribute to human security. As most of West Africa's conflicts are interconnected and their effects spill over borders, our work is designed to address issues at both the sub-regional level and in specific countries.

Diamonds for Development

Is a joint UNDP-Government of Liberia initiative, focusing on the sustainable use of revenues from mineral resources. It includes complementary activities for policy reform, local governance for development by empowering communities and fighting poverty thus improving livelihoods. For equity, transparency and accountability in mineral resources management.

Background Paper

This report is the product of desk and field research carried out between February and March 2006 in Cote d'Ivoire, Liberia, Sierra Leone and Guinea by Robert Powell and Mohamed Yahya researchers from International Alert.
It has been prepared under a partnership between the United Nations Development Programme (UNDP) and International Alert as a platform for discussion at the regional conference on Diamonds for Development to be held in Monrovia, Liberia in June 2006.

Disclaimer

The analysis and views expressed within this paper are those of the authors only and do not necessarily correspond with the official views and policies of UNDP and /or the Government of Liberia

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A working mine in Seguela, Cote d'Ivoire

Executive Summary

This report is prepared within the framework of the Diamonds for Development programme (D4D). The D4D directly targets the role that mineral resources have played in conflict and can play for development.

D4D programme includes complementary activities at sub-regional and national levels for policy reforms and also activities at local/community levels to improve local governance. D4D also aims to improve livelihoods of diamond producing communities, thus demonstrating that with equitable, transparent and accountable management of mineral resources it is possible to reverse the resource curse and fight poverty.

Based on a series of visits to working diamond mines, interviews with diggers, mine owners, traders, exporters, government officials and NGOs, the report describes the current state of the diamond industry in West Africa, providing both an overview of the sub-region and detailed analysis of each country. It identifies possible ways of using diamonds as a tool for development rather than a fuel for conflict, including how to deliver a larger part of the revenue from diamonds to the miners themselves and to the rural communities that host them, plus strategies for making artisanal mine owners more efficient and profitable and less financially dependent on the traders who buy their stones. It also suggests ways of improving cooperation and harmonising diamond policy at the regional and international level.

Context

Diamonds and conflict in West Africa

Diamonds helped fuel the civil wars of Sierra Leone and Liberia during the 1990s, prompting the UN Security Council to ban diamond exports by Sierra Leone between 2000 and 2003 and impose a diamond embargo on Liberia that is still in place.

Following the outbreak of civil war in Cote d'Ivoire in 2002, the existence of diamond mines in the rebel-controlled north of the country raised international concerns that diamonds could become a contributing factor to the conflict. The Security Council banned diamond exports from Cote d'Ivoire in December 2005.

However, peace returned to Sierra Leone in 2001, Liberia's civil war came to an end in 2003 and the conflict in Cote d'Ivoire appears to have stabilised. Guinea, which repelled an attempted invasion of its diamond producing areas in 2000 and 2001, has so far managed to avoid internal strife.

Production and the workforce

Reliable figures on the number of diamonds mined and people involved in mining are extremely difficult to gather.[1] The diamond industry in West Africa is secretive and poorly documented. Much mining takes place clandestinely and smuggling is rife. Mining ministry officials often differ among themselves when estimating the size of the industry. The numbers given by traders and NGOs are frequently based on inspired guesswork or self -interest. It is particularly difficult to assess diamond output in Liberia as the UN embargo on exports means that all mines in the country are operating clandestinely.

However, the information available indicates that the combined value of diamond production of Cote d'Ivoire, Liberia, Sierra Leone and Guinea is in excess of $300 million annually. Diamonds play a huge role in the economies of Sierra Leone, Guinea and Liberia, providing an important source of income in rural communities that otherwise rely on subsistence agriculture and casual employment to fortune seekers from all over West Africa.

About 90 percent of the sub-region's current diamond output comes from artisanal mines. Gangs of diggers extract piles of gravel from pits in the ground up to 20 metres deep. They then wash it in sieves to remove the mud, sand and larger stones in the hope of finding a diamond among the small chippings that are left in the mesh.

The diamond industry involves mine owners, diggers, supporters and exporters. Mine owners have, or claim to have, the legal right to mine their plot of land and to own all diamonds found there. They employ diggers to work for them. Although there is no consensus on the number of diggers employed in the industry, it is probably somewhere between 250,000 and 500,000 men. The overwhelming majority are casual labourers who are paid mainly in kind, through the tributer system, which means that instead of a fixed daily wage, they are given a daily food ration and a small cash allowance plus a small share in the sale price of any diamond they find.

Most mine owners lack the capital necessary to work their claim so they rely on finance from a supporter (mostly small businessmen) who provides tools and food for the diggers, plus pumps to clear water from the pits in return for the exclusive right to buy all the diamonds produced by the mine. There is no independent source of finance for artisanal miners and so they are forced to rely on a system that they say cheats them because prices are fixed by the supporter. The situation of the bonded seller is a major problem.

The main exporters, who buy diamonds from intermediaries and handle the majority of stones exported to international markets, are Lebanese. They dominate the legal export trade in

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[1] The estimates given in this report for production, employment and smuggling have been compiled from the widest possible variety of authoritative sources. However, because of the difficulties described here, they should be taken as guides that illustrate orders of magnitude, rather than as accurate statistics.

Sierra Leone and Guinea and the top end of the illicit trade in Liberia and Cote d'Ivoire. Export licences are expensive.

Incentives, control and regulation
Tax in Sierra Leone and Guinea is deliberately set low at three percent on exports and five percent on production in order to encourage traders to sell their diamonds openly and legally. Liberia is planning to adopt the same rate once UN sanctions are lifted. Tax in Cote d'Ivoire is, however, high. In all four countries, even clandestine miners without a government licence still end up paying 'tax' of some sort, to local chiefs or military commanders.

A well-managed and effectively run diamond industry would be in the interests of the region as it would facilitate the transfer of a share of the wealth generated by the industry to the poor. Fair taxation and licensing would provide an opportunity to finance development projects in rural communities that have coped with the social disruption and environmental degradation that mining for diamonds brings.

Artisanal diamond mining in West Africa is a high risk, individualistic, flexible and cash-led business that crosses ethnicities and borders. Financial incentives work much better than bureaucratic regulation when it comes to applying controls and policy in such a fluid sector. This report suggests that this should be kept firmly in mind when devising policy aimed at making the industry more equitable, as the industry has learned to operate smoothly both within and outside the law, including how to bypass the Kimberley Process[2]. It argues that the present system of tributer labour and supporter-financed mines works, even in the most adverse conditions and that any policies introduced to distribute profits more fairly should build upon the existing system and work with it, rather than seeking to destroy and replace it.

Thematic issues

The report explores a number of issues that apply to all four countries in the sub-region and identifies points for discussion by West African governments and the international community.

Improving the situation of the diggers
The diggers come from all over West Africa and have little prospect of meaningful employment. Many are former combatants from the sub-region's civil wars. This highly mobile workforce lives in extreme poverty and is the most important target group to assist when it comes to using diamonds for development. The tributer system means that they are motivated by the hope of finding a big diamond that will make their fortune; in reality their chances of doing so are very slim. The conditions in which they work are dangerous and health and safety rules are rarely applied. Efforts to promote cooperatives and unionise diggers in the region have so far proved unsuccessful.

One of the ways to improve the living conditions of diggers is to raise their income, and the most obvious way of doing this would be to help mine owners increase the selling price of their diamonds so that diggers earn more with each stone that they find. In addition, it should be possible to negotiate minimum conditions of employment under the tributer system, to include working hours, food rations, cash allowances, sharing value of diamonds, health and safety, and sickness assistance. A third option would be to establish a regionally based trade union with autonomous local branches that would allow diggers to move between mines and effectively represent their voices and interests both at the local and international levels.

[2] The Kimberley Process Certification Scheme (KPCS) was devised to ensure that rough diamonds from conflict-affected regions that were financing rebel movements did not enter legitimate international trade

Empowering the mine owners

Although mine owners are often assumed to be real bosses of the artisanal mining industry they are often little more than front-men for the supporters – the diamond traders who finance their operations and demand in exchange the exclusive right to buy their stones. Few owners have the capital to spread their risk by working several different plots simultaneously and so most rely on investment from supporters. However, their earning point is limited by their obligation to sell their stones to the supporter at the price that he dictates. Even if a financially independent mine owner is free to sell to the highest bidder, price information does not circulate freely and they are often persuaded to sell their diamonds at a less than fair price.

The most effective way to increase the profitability of artisanal mines and improve the living standards of all those who work in them would be to engineer an increase in the selling price that miners achieve for their diamonds. This will be difficult so long as the miners remain bonded sellers to their financial supporters and unable to assess the real value of their diamonds, therefore allowing themselves to be cheated by dealers. A combination of strategies to improve miners' knowledge of the market (e.g. training in diamond identification/valuation, provision of information, price transparency) and measures to make artisanal miners more efficient and profitable (training in mining techniques, forming cooperatives to buy/lease machinery), as well as introducing new sources of mining finance to compete with the supporter system would begin to address this.

Cooperatives as a solution

Cooperatives have a poor record of financial success in the diamond mining industry in West Africa, but they could usefully play a more limited role as a vehicle for helping small-scale miners to buy or lease heavy machinery for shared use. However, previous attempts at forming them in Liberia and Sierra Leone proved unsuccessful, for a combination of reasons such as the exclusion of diggers, problems with financing, unsuccessful marketing strategies and poorly chosen cooperatives with too few licences to be profitable.

Any future initiatives to set up cooperatives as a way of ensuring that miners and diggers benefit more from the diamonds that they produce must ensure that there is a well-defined structure with clearly defined roles and responsibilities and that the cooperatives are sustainable, large enough to spread their risks and located in areas where people have expressed an interest in forming them.

Cash and control for the mining communities

The wealth generated from diamonds has benefited only a small minority of individuals; the overwhelmingly large majority of the diamond-producing communities are desperately poor. They deserve to earn a fair share in this wealth, not least as they bear the cost of social disruption and environmental degradation that mining brings. They also deserve a degree of control over mining on land within their jurisdiction in order to preserve their interests. This is also in the interest of governments, as communities with a stake in mines on their land will enforce mining legislation, ensuring that mines are licensed and diamonds sold through legal, taxable channels. Failure to spread the wealth created by diamonds may result in conflict, as experienced in the Niger Delta over oil.

Arrangements in Cote d'Ivoire and Sierra Leone to give local communities a say in the granting of mining licences and a share of licence fees and revenues should be refined and extended where appropriate to Guinea and Liberia. Other measures aimed at spreading diamond-related benefits and controls could include allowing mining communities to receive part of the export tax levied on diamonds by central government to fund local development projects, ensuring that licence approvals and spending of revenues are handled transparently by committees of local representatives and levying a fee on mine owners for land remediation, charging mine owners with the responsibility for restoring the land after operations cease.

Central government – revenue and regulation

Although Sierra Leonean experience has shown that, even with a diamond tax of three percent it is possible both to cover the costs demanded by the Kimberley Process and return reasonable and meaningful revenues to the diamond mining communities. However it would unrealistic for West African Governments to expect artisanal diamond mining to generate major income for their treasuries. The key to raising larger state revenues from diamond mining is to promote Kimberlite industrial production, encouraging large producers whose operations are fundamentally different to those of the artisanal miners so there is no competition between the two sectors.

When mechanised mining companies compete for alluvial site with local artisanal miners, conflict emerges as has already happened in Sierra Leone. Governments, companies, INGOs and the UN must ensure that conflict sensitivity is a key component in their work if potential conflicts are to be avoided and lessons learned. A conflict-sensitive approach requires participatory analysis of any existing or potential conflict, good communications, strong local relationships and shared decision-making.

The regional and global dimension

Sierra Leone and Guinea have adopted a uniform export tax of three percent and Liberia is set to follow suit. Cote d'Ivoire retains a much higher rate of taxes. International sanctions against diamond mining in Cote d'Ivoire and Liberia have failed, increasing the volume of smuggled diamonds flowing out of West Africa and undermining legitimate trade in Guinea and Sierra Leone. The Kimberley process has helped to ensure that a higher percentage of the diamonds produced by Guinea and Sierra Leone are sold through legal channels but it has not managed to ensure that each diamond certified can be reliably traced back to its mine of origin.

The workforce, including many ex-combatants, is highly mobile and moves across the region's borders. Attempts by individual governments to exclude non-nationals from participating in the local diamond-mining industry would disrupt the legal production and marketing of diamonds.

A harmonised tax on artisanal diamonds in the sub-region would discourage smuggling. Governments might also consider harmonising the way that they structure and issue artisanal mining licences in order to ensure that local communities receive part of the licence fee and that remediation of land is assured once mining operations cease. As diamonds are not a significant factor in Cote d'Ivoire's conflict, the international community should consider lifting the UN embargo on their export and devising an arrangement whereby diamonds produced in the rebel-held north can be sold legally, thus preventing them from being smuggled into neighbouring countries. Another point for consider is the adaptation of the Kimberley Process to allow it to account for rough diamonds that are cut and polished in the country of their origin, thereby increasing their export value. Concerns over the cross-border movement of ex-combatants could be addressed by closer cooperation between government security agencies and UN peacekeeping forces.

Diamonds and gold

Although the main focus of this report is diamond production, during the research process it became evident that the extensive artisanal gold mining in the sub-region shares many characteristics of diamond mining, including the tributer labour system and supporter-based finance system. Most of it is sold through unofficial channels, depriving governments of income and tax revenue and financing conflict and criminal activity. Although 'uncontrolled gold' have attracted much less attention and concern than 'conflict diamonds', it poses similar problems that require similar solutions. More research is required on artisanal gold mining in West Africa, in order to both accurately describe its scale and to identify strategies to make it an instrument for development in the region.

Washing gravel in Kindia District, Guinea

Chapter One: Overview of diamond mining in West Africa

1.1 How diamonds are formed and mined

Diamonds are extremely hard crystals of carbon that form at very high pressure deep in the earth's liquid mantle, more than 150 km beneath the crust.

They are carried to the surface in extrusions of magma that thrust upwards through the earth's crust at high speed from great depths.

These upwellings of molten rock solidify into carrot-shaped tubes of volcanic rock known as Kimberlite pipes, named after Kimberley in South Africa, where large quantities of diamonds were discovered in the 1870s.

Kimberlite mining is heavily mechanised and requires large amounts of explosives to blast open the rock. There is only one Kimberlite mine in West Africa - at Koidu in Sierra Leone's Kono district. However, there are hopes that the encouraging results from recent prospecting will allow several more Kimberlite mines to be opened in Sierra Leone, Guinea and Liberia in the near future.

Where Kimberlite pipes reach the surface, they become eroded by weathering. The diamonds inside the pipes fall free and are washed into nearby streams, where they are eventually deposited in beds of gravel. These diamonds can be retrieved by digging out the gravel and washing it. This is known as alluvial mining.

Nearly all the diamonds mined in West Africa at present come from alluvial mines, which exploit gravel beds lying on or near the surface. Most of these deposits can be worked easily and at low cost by artisanal miners using rudimentary tools such as picks, spades, buckets and sieves.

Some artisanal diamond mines are very small, employing less than half a dozen diggers. Others are deep holes in the ground measuring several hundred metres across and which employ several hundred men.

An army of 250,000 to 500,000 diggers working for eight or nine hours per day in these pits is responsible for producing over 90 percent of West Africa's diamond output. This is worth upwards of US$240 million per year and probably in excess of $300 million.

In humid forest areas, where the water table is close to the surface, artisanal miners seldom manage to dig pits more than three or four metres deep, even with the help of small petrol-driven pumps to reduce the water level inside them. However, in drier savannah areas, such as the diamond fields of northern Cote d'Ivoire, they can often go much deeper – 20 metres or more.

Diamond-bearing gravel beds often lie buried up to 30 metres below the surface. In such cases, several metres of overlying soil, known as overburden, must be removed before they can be mined.

Heavy machinery is needed to mine such deposits effectively. This includes bulldozers, excavators, heavy-duty pumps and draglines that can scoop up gravel that is lying under water. However, the high cost of such equipment puts it beyond the reach of most artisanal miners.

Mechanisation brings higher productivity and an opportunity to earn higher incomes. The downside from a social perspective is that mechanised mines require much less labour.

One man operating a bulldozer can remove several metres of overburden in two or three days, whereas it might take a gang of 50 diggers three months to do the same job. However, in Sierra Leone it costs at least US$1,200 to hire a bulldozer for a day.

The livelihoods of tens of thousands of artisanal miners in Sierra Leone are likely to be threatened in the near future by the arrival of bulldozers and drag lines owned by entrepreneurs with substantial capital and good connections in government. Their appearance is already provoking social conflict in Sierra Leone's Kono district. In years to come, it will probably do so throughout the sub-region.

The larger, brighter, clearer diamonds that are not flawed by cracks are exported to Europe. From there, they are shipped around the world by traders who have them cut and polished to be made into jewellery in centres such as New York, Antwerp, Amsterdam, Tel Aviv, Surat, Palanpur, Bombay, and Bangkok. Some of the larger gem quality rough diamonds fetch prices running into tens of thousands or even hundreds of thousands of dollars. Occasionally a 'monster stone' of exceptional quality may be worth several million.

The smaller, opaque and less valuable diamonds are used for industrial purposes, mainly as abrasives for cutting, grinding and polishing tools. Some are also used in opto-electronics and the manufacture of precision equipment.

1.2 Diamonds and the West African economy

Five countries in West Africa produce diamonds in commercial quantities: Sierra Leone, Guinea, Liberia, Cote d'Ivoire and Ghana.

This study focuses on the diamond industries of Sierra Leone, Cote d'Ivoire, Liberia and Guinea, whose political fortunes are closely inter-connected.

Diamonds are the top export of Sierra Leone, accounting for 90 percent of the country's export earnings. They rank third in exports of Guinea, after bauxite and gold. Diamonds are among the top four commodities exported by Liberia, alongside rubber, iron ore and gold. However, they play only a minor role in the economies of Cote d'Ivoire and Ghana.

Cote d'Ivoire, Liberia, Guinea and Sierra Leone together produce diamonds worth at least US$240 million per year – and probably a lot more. The exact value is difficult to verify because the UN Security Council has imposed embargoes on rough diamonds from Liberia and Cote d'Ivoire, so the entire production of these two countries is exported clandestinely. Even in Sierra Leone and Guinea, where diamond mining is legal and regulated by the government, a large proportion of local production is clandestine, meaning that many of the stones exported by these two countries do not show up in official statistics.

Seen in the context of the global diamond production of around US$10 billion per year, West Africa's output is not significant. However, diamonds play a huge role in the economies of Sierra Leone, Guinea and Liberia. They provide an important source of cash income to rural communities that otherwise rely on subsistence agriculture, and casual employment to fortune seekers from all over West Africa.

The diamond mines have also attracted thousands of former combatants from West Africa's civil wars. Diamond mining provides an important means of keeping ex-fighters gainfully occupied and away from the possibility of reverting to old habits, especially given the lack of other attractive employment opportunities for them in the region.

A well-managed and effectively run diamond industry would be in the interests of the region. Replacing opaque practices with clear rules, simple procedures, and transparent mechanisms would make it easier to facilitate the transfer of a share of the wealth generated by the industry and spread it more widely in order to benefit the poor in the region. Fair taxation of diamond mining and fairly priced licensing would provide an opportunity to finance development projects targeting rural communities.

These communities deserve a special payback, not least because those who dig the gravel and pocket the diamonds are frequently outsiders to the villages whose land they dig up and leave unfit for agriculture afterwards. These communities need special assistance to cope with the social disruption and environmental degradation wrought by the diamond seekers.

Over the past 15 years, diamonds from the mines of Sierra Leone and Liberia have been used to finance armed factions and fuel conflict. In Guinea, the diamond mines were the prime target of a failed attempt by rebels, mercenaries and fortune seekers to invade the country. Although diamonds do not play a significant role in financing the presently dormant civil war in Cote D'Ivoire, the fact that the country's diamond mines are completely controlled by rebel forces has aroused international concern.

Roughly speaking, each diamond miner in West Africa produces about US$1,000 worth of diamonds per year. That is before the cost of production and marketing is taken into consideration. This low level of productivity does not leave much room for improving their standard of living, however much the profits made by intermediaries are squeezed.

The living conditions of artisanal diamond miners will only be improved to an acceptable standard if measures are taken to improve their productivity, and steps are taken to ensure that the mine owners and diggers themselves pocket a larger share of the value of each diamond produced.

1.3 The organisation of artisanal diamond mining in West Africa

1.3.1 The tributer system

Over 95 percent of the diggers in West Africa's artisanal diamond mines work on the tributer system. Under this system they do not receive fixed wages. Instead, they receive a subsistence allowance, paid either in food or cash or a mixture of both, plus a share in the sale price of any diamond found by the gang they work in.

The tributer system guarantees very little in terms of financial rewards, but it is flexible, adaptable and incentive driven, so it works well in conditions of minimal or no governance, which is why it has survived.

The system relies on a plentiful supply of cheap labour, but that is not a problem. So long as poverty and high unemployment remain features of life in West Africa, the diamond mines will not lack diggers. In Liberia, where, despite an official ban, diamond mining thrives, the United Nations has estimated unemployment at 80 percent.

The diggers have no employment security. They often drift from one mine to another in search of work and many of them wander from one country to another in search of better fortune. If a promising new diamond field is suddenly discovered elsewhere, many of them rush to it. The Sinoe county gold and diamond rush in Liberia began in late 2003 and within a few months tens of thousands of mineworkers had gathered in the remote area.

However, there is some notion of social responsibility under the tributer system. Mine owners and supporters often look after their diggers when they are unable to work during short periods of illness, for example, when they have malaria. They frequently supply sick diggers with food and medicine or a small cash subsistence payment until they are well enough to resume work.

In many ways, the flexibility of the tributer system suits both the digger and the mine owner. It has built-in incentives to maximise hard work and minimise theft. The diggers work in gangs of five to 10 men. Every digger in the gang shares in the winnings if another member of his team finds a diamond. This gives the individual digger a strong incentive to work hard. It also makes him vigilant in order to ensure that other members of his gang are not stealing diamonds and thus depriving him as well as the mine owner of a share in the profits.

All diggers in the tributer system harbour the illusion that they can make their fortune by finding a large and valuable stone. Some individuals do manage to save enough money over time to climb out of the poverty trap and set up a small business, but very few strike it rich. Their chances of their doing so are extremely slim - akin to those of an ordinary citizen winning the national lottery. With good reason, artisanal diamond mining has been labelled as a ‘casino economy’. The reality is that most worn-out diggers give up after 10 or 15 years of back-breaking work, as poor as when they first started.

The mobility of labour allowed by the tributer system enables a digger to abandon one employer without notice to go and work for another if he is being treated badly or if he thinks he stands a better chance of finding diamonds in a different mine. It also allows the digger to go back to his home village to plant crops during the rainy season, when rising water levels reduce the level of artisanal diamond mining in any case.

The tributer system meanwhile provides the mine owner and his financial supporter with a flexible and motivated workforce.

Each gang of diggers is allocated a particular plot within the diamond mine from which to extract gravel. Each gang jealously guards its piles of dirt. These are often covered with leaves to prevent passers-by from spotting a diamond lying on the surface and picking it out. After a period of digging – typically about two or three weeks – the gang stops and begins to wash the accumulated gravel in large sieves. Standing knee-deep in muddy water, they wash out the fine sand and mud from each bucket-load of gravel, then throw out the larger stones left in the sieve to see if any diamonds are left among the small chippings trapped in the fine mesh. At this point, the mine owner or his representative will be present, watching closely over the diggers to take any diamonds that they find and to prevent individuals from stealing them.

If the mine is legally licensed, a mining monitor from the government is supposed to be present during the washing process to ensure that any diamonds found are duly declared to the authorities to prevent them from being smuggled. If the mine is unofficially sanctioned by a de facto local authority, such as the rebel movement in Cote d'Ivoire or the local military commander in Guinea, representatives of this de facto authority may likewise be present during washing to ensure that any diamonds found are declared to them.

Many owners of artisanal mines lack the necessary capital to work their claims effectively. They need money to pay for picks, shovels, sieves and a small petrol-driven pump to evacuate water from their pits. They also need money to feed and pay their diggers. These men may have to work for three or even six months before they find a single diamond. A mine owner normally requires several thousand dollars to launch mining operations and sustain them to the point where the mine starts to generate cash flow and profit.

If the mine owner runs out of money, the tributer system allows him to sack his diggers on the spot without compensation and shut down his operations until fresh capital can be raised.

Equally, if rising water levels force him to shut down operations during the wet season, he can do so easily, rehiring a new gang of diggers a few months later when the rain stops and water levels start to recede.

1.3.2 Working for wages

In the two industrial diamond mines in West Africa - the AREDOR alluvial mine in Guinea and the Koidu Holdings Kimberlite mine in Sierra Leone - and in a very small minority of artisanal mines, the workers are paid fixed cash wages.

In Sierra Leone's Kono district, the daily wage of a worker in an artisanal diamond mine is 3,000 to 6,000 leones (US$1 to $2). The International Alert researchers did not find instances of diggers working as employees in artisanal mines on a fixed daily wage anywhere else in the region.

Although working for a fixed cash wage gives an individual a guaranteed cash income, it removes all cash incentives from his job and the possibility of windfall earnings from a major diamond find.

1.3.3 The supporter system

Most mine owners do not have the necessary capital to exploit their claims without assistance, even if they have raised sufficient money to pay for a mining licence.

The majority therefore relies on a financial supporter. He (occasionally she) is a venture capitalist who makes money by financing the operation of artisanal mines and buying diamonds from them for resale at a profit.

The mine owner is the legal owner of all the diamonds produced from his own pits, even though he may be contractually obliged to share the proceeds from their sale with his diggers.

However, if the mine is financed by a supporter, the mine owner is obliged to sell all diamonds found to the supporter at a price determined by negotiation. This gives rise to a major problem: that of the bonded seller.

Most mine owners cannot sell their diamonds to the highest bidder in an open competitive market. All complain that they are cheated of a fair price as a result.

Since diamond mining is a very high risk business, local banks have not so far been willing to lend money to artisanal miners. The only source of finance available has been private risk capital from other players in the trade.

Sometimes the supporters are local businessmen, such as shopkeepers, who invest surplus capital in diamond mining. Often, however, they are professional diamond dealers who advance capital to individual mines in return for a guaranteed flow of diamonds, which they can buy at favourable prices. Supporters are often vilified as greedy cheats by critics of the present system. However, they play a key role in providing risk capital to finance artisanal mining, which until now has not been forthcoming from any other source.

Some supporters have become very rich. But many have lost large sums of money by investing in mines that have turned out to be unproductive.

One example of this is the case of Martin Rapaport, a prominent international diamond dealer with offices in New York and Tel Aviv, who played an active role in the development of the Kimberley Process. Rapaport invested US$40,000 in four diamond mining cooperatives set up by the Peace Diamond Alliance in Sierra Leone's Kono district in 2005. Over one year, these cooperatives managed to produce diamonds worth only $3,000 before they ran out of funds and went bust.

Sometimes the supporters simply factor the recovery of their capital investment into the price they pay for the diamond. Practice varies from place to place. In Sierra Leone, for example, many supporters receive cash advances from licensed diamond exporters or their agents to help them finance miners. This further extends the chain of financial dependence and reduces competition. It maximises the profits of those with most capital to deploy at the pinnacle of the domestic trading network.

In Sierra Leone, the value placed on a diamond often increases more than three-fold between its first sale at the mine and its export valuation by the government's Gold and Diamond Department in Freetown.

Supporters are often diamond dealers in their own right, buying diamonds from independent sellers as well as the mines that they finance. In some instances, they are also exporters. For example, Alhaji Daouda Cisse, the chairman of the diamond traders' association in Guinea, the Coordination Nationale de Diamantaires et Orpailleurs (CONADOG), owns one mining claim himself and finances 19 others. He also buys diamonds from independent sellers in the domestic market and is licensed by the government as an exporter.

1.3.4 Diamond exporters

The biggest and most powerful diamond dealers in West Africa, licensed or unlicensed, are Lebanese. They dominate the legal export trade in Sierra Leone and Guinea and the top end of the illicit trade in Liberia and Cote d'Ivoire.

The biggest diamond exporter in Sierra Leone is Hisham Mackie, a Lebanese who sells his stones through a relative's diamond trading business in Antwerp. For several years he has cornered more than 40 percent of Sierra Leone's legal export market. Most of the other licensed diamond exporters in Freetown are also Lebanese.

In Guinea, the two largest diamond exporters, Guinee Gems and SIGMA et SIKO are both Lebanese-owned. Between them, in 2005 they controlled just over 50 percent of the legal export market. In Liberia, dealers say that the biggest buyer of clandestine diamonds in Monrovia is a Lebanese dealer known simply as 'Atif'.

The Lebanese have been influential traders in West Africa for more than a century. They migrated into West Africa more than four generations ago and control commerce in Sierra Leone and Liberia, playing an influential but less powerful role in the economies of Guinea and Cote d'Ivoire.
Many of the Lebanese active in the diamond trade use the foreign exchange earned from diamonds to finance the import of goods that they sell in their shops. Often they encourage miners to take part of the payment for the diamonds in the form of goods from their shops rather than cash.

Apart from the Lebanese, the other main category of diamond traders and exporters are West Africans known as ‘Marakas’. These are usually foreigners in the countries where they trade and include Guineans, Gambians, Mauritanians, Malians and Senegalese from a variety of ethnic groups. The Marakas are mainly active at the lower and middle end of the diamond trade and many of them are supporters. They buy diamonds from miners in the bush and small towns in the interior and sell them on to the exporters in the capital cities.

Some Marakas are also present in the export trade. Gambians are particularly prominent as traders and exporters within the Maraka community and The Gambia has long been seen as a prime transit point for smuggled West African diamonds en route to world markets.

Authorised diamond exporters pay handsomely for their licences. An exporter’s licence in Sierra Leone costs US$40,000 per year and each exporter may employ up to five agents for a fee of $5,000 each. In Guinea, an exporter’s licence costs $25,000, but the applicant must also lodge a bank guarantee of $25,000. Payment of an additional fee of $2,500 will allow the exporter to employ up to four agents.

Numbers vary, but there are between 12 and 20 licensed diamond exporters in Sierra Leone and Guinea. There are no licensed exporters in Liberia and Cote D’Ivoire. However, in Liberia, despite the official ban on diamond exports, there are at least six exporters who are well known in the trade. Most of them operate in the vicinity of Monrovia’s Randall Street.

1.3.5 Clandestine mining and smuggling

Everywhere in West Africa, no matter how remote the location, the land and the right to use it is claimed by a local community. Even if diamond miners start digging without an official government licence in their pocket, they must eventually come to terms with the local village chief or any other de facto authority that controls security in the area. Whether officially or unofficially, every diamond miner ends up having to pay taxes to someone.

In Liberia, where 15,000 UN peacekeepers now provide security throughout the country, there is no longer any need for diamond miners to pay protection money to local warlords, but in Cote d’Ivoire and some parts of Guinea many artisanal miners still have to pay fees to local military authorities in order to be allowed to operate.

Sustainable Development International (SDI), a Liberian NGO that focuses on environmental issues, sent a mission to investigate reports of clandestine gold and diamond mining in remote parts of Sinoe country in 2005. It found that the village chief in Chebioh Town, the nearest community to the unofficial mining settlements of ‘Iraq’ and ‘Afghanistan’ in Sapo National Park that sprang up during the diamond rush was levying an informal tax on traders and miners who passed through on their way to the mine workings.

In Guinea, the International Alert team found that diamond miners operating illicitly in Kindia were paying a levy, diplomatically described as a ‘kola nut’, to the local village chief in return for being allowed to dig on his land. In addition, they were paying 10 percent on their diamond production to the local military commander. He in turn sent soldiers to maintain security at the mines.

Small-scale diamond smuggling is a low-cost but high-risk business. It is relatively easy to avoid detection. Individual miners take a few diamonds back to sell in their home country when they return to their villages for the planting season; their intent is not to avoid taxes, but to realise their cash earnings in a particular country or currency.

Large-scale diamond smuggling is more difficult to keep quiet. If it is to be sustained, senior officials who get to know about it must be paid off to refrain from interfering.

Very few miners manage to extract diamonds from the ground and sell them without making some formal or informal payment to those in authority. However, the government taxes officially levied on artisanal diamonds in Sierra Leone and Guinea are deliberately set very low – three percent of the assessed export value - in order to encourage traders to sell their diamonds openly and legally. Liberia is planning to tax its own diamonds at the same rate once UN sanctions are eventually lifted.

The cost of a mining licence in all three countries – in instances where a licence is required – is also quite modest. A 12-month artisanal mining licence for a small plot of land of up to one hectare costs about US$330 in Sierra Leone and Guinea and $400 in Liberia.

In Cote d'Ivoire, an artisanal diamond mining licence is much cheaper. Before the civil war, it cost $6 per hectare. However, Cote d'Ivoire levies high taxes on diamond production. A 20 percent tax is levied on the value of each stone at the point of first sale. When there was peace in the country, a further 18 percent export tax on the assessed value of diamonds was levied prior to export.

1.4 Incentives, controls and regulation

Artisanal diamond mining in West Africa is a high risk, individualistic, flexible and cash-led business. It is multi-ethnic and international.

The people who produce and trade diamonds constantly cross borders to do business. Sometimes they are forced by conflict to move out of their home country, becoming refugees. This reinforces the regional and international dimension of the diamond business.

Alhaji Daouda Cisse, a leading diamond dealer and exporter in Conakry who is president of the national diamond dealers' confederation CONADOG, spent 25 years in the diamond trade in Sierra Leone before returning to Guinea. He still has family in Kono and returns frequently to see them. Prince Sacquee, the chairman of the diamond dealers' association in Kono, who supports more than 20 mines in the district, has meanwhile spent several years in Guinea as a refugee. Many of the Lebanese traders in one capital city have friends and relations in the other cities along the West African coast.

The Maraka diamond traders and the itinerant diggers come from all over West Africa. Their common tongue is Mandingo, the language of an ethnic group that is found in all four countries of the sub-region.

The International Alert team met one young man in Kindia who had been born in the diamond fields of Seguela in Cote d'Ivoire and had migrated with his family to Liberia before venturing on to work in Guinea. He was thinking of going back to Cote d'Ivoire.

Financial incentives work much better than bureaucratic regulation when it comes to applying controls and policy in such a fluid sector. This is particularly the case in countries where governance is weak and where civil servants charged with enforcing government policy are underpaid and susceptible to corruption.

The adoption of a standard three percent tax on diamond exports by Sierra Leone, Guinea and Liberia reflects the reality that a higher tax rate would cause more diamonds to disappear into clandestine trade networks. Experience has shown that even a small differential in taxes on diamonds between neighbouring countries encourages smuggling into the state where taxes are lowest.

The principle of using the carrot rather than the stick to regulate diamond mining should be kept firmly in mind when devising new policies aimed at making the industry more equitable in the distribution of its rewards, more efficient, more competitive and more transparent.
The acceptance that the Kimberley Process has enjoyed within the diamond industry is partly because of the horrifying nature of diamond-related crime, partly because of international campaigning, partly because of UN Security Council sanctions, and also partly because the diamond industry – which sells a product with an extremely elastic demand that is purely a discretionary purchase for consumers – saw that it was in its interest to cooperate with the certification scheme. Rules imposed externally, which have no bearing on the reality on the

ground, and which the overwhelming majority of participants in the diamond trade see as disadvantageous to them, will inevitably fail.

All the players in the diamond business are flexible. They constantly change tactics in order to evade new and unwanted structures or take advantage of opportunities opening up elsewhere.

The owners of artisanal mines can shut down or reopen their pits without notice. Diggers can disappear overnight to a new location where a diamond rush is under way. Supporters can turn financial taps on or off as it suits them and shift their business from one country to another. Dealers can likewise shut up shop in one country and reopen for business across the border whenever they wish.

One of the biggest problems faced by policy makers attempting to regulate artisanal diamond mining is that the entry barriers are very low. All that the mine owner or supporters needs is a few picks, shovels and sieves and enough rice to keep a gang of six men fed for a couple of months. If the government closes the operation down for operating clandestinely, the owner or supporter and his or her diggers do not have much to lose.

It is not easy for the government to exert its authority over a vast territory. It is not possible for the state to post guards to order hungry and unemployed young men not to mine diamonds on a particular patch of vacant ground. This seldom works for long. Wherever diamonds are to be found men will dig for them.

The industry has learned to operate smoothly within the purview of the law and outside it. Many of its participants slip easily from legal trade to contraband, depending on the degree of coercion the host government exerts upon them. Quite a few lead parallel lives, regularly doing part of their business as per the requirements of the law, and part under the table.

While the Kimberley Process has been successful in helping the world and the diamond industry focus their attention on trade in rough diamonds that fuel conflict, the International Alert team has found sufficient inadequacies in documentation at the bottom end of the trade to allow smuggled diamonds to enter the legitimate trade, permitting laundering of diamonds through the official certification system in both Guinea and Sierra Leone. Review Missions of the Kimberley Process to West Africa have documented the ease with which traders can falsely ascribe the origin of a clandestine diamond to a legal mine.

Furthermore, many diamond exporters in the sub-region regularly ship stones to the Gambia or direct to buyers in Antwerp, Moscow and Dubai, bypassing the Kimberley Process entirely.

Compelling traders to sell diamonds through official channels without offering them strong incentives to do so is likely to prove futile. The imposition of new regulations unmatched by financial inducements will simply drive more of the export trade underground.

In late 2005, the Ministry of Mineral Resources of Sierra Leone announced that it planned to collect three years of back taxes on the profits of diamond dealers. Shortly after, there was a sudden drop in the number of diamonds being presented to the government's Gold and Diamond Department for valuation and Kimberley certification. This dip in official exports lasted for most of October and November until the issue was resolved through negotiation.

The present system of tributer labour and supporter-financed mines works, even in the most adverse conditions. Any policies introduced to distribute the profits from artisanal diamond mining more fairly should build upon the existing system and work with it. They should not seek to destroy the system and replace it.

Mine owners and supporters in Kindia Guinea

Chapter Two: Country Analysis

2.1 COTE D'IVOIRE

2.1.1 Political situation

Cote d'Ivoire was the most prosperous state in West Africa until civil war broke out in September 2002, leading to the country being partitioned.

For the past three years, President Laurent Gbagbo has controlled the densely forested southern half of the country. This contains the capital, Abidjan and three quarters of Cote d'Ivoire's population of 16 million. The south also produces most of the country's export commodities. It accounts for more than 85 percent of Cote d'Ivoire's cocoa, coffee, timber exports and all of the country's offshore oil production. The north, held by the New Forces rebel group, is much drier and poorer, with cotton as its main cash crop.

The front line in the civil war stabilised in early 2003. Since then, French and UN peacekeeping troops have patrolled a demilitarised buffer zone between the two sides known as the Zone of Confidence. The United Nations Mission in Cote d'Ivoire, known by its French acronym ONUCI, currently has 7,000 peacekeeping troops, supported by 4,000 French soldiers under separate command.

In January 2003, France, the former colonial power in Cote d'Ivoire mediated between the warring parties in negotiations that resulted in the Marcoussis peace agreement. This led to a ceasefire and the formation of the Government of National Reconciliation, comprising representatives of President Gbagbo's Ivorian Popular Front (FPI) party, the main parliamentary opposition parties and the New Forces rebel movement.

This broad-based administration was supposed to implement a series of political reforms that would pave the way for disarmament and national reunification. However, the implementation of reforms fell short of what had been agreed in the Marcoussis peace agreement. The New Forces rebel movement repeatedly delayed the start of disarmament and the country remained divided administratively as well as militarily. Presidential elections scheduled for October 2005 failed to take place and the first Government of National Reconciliation resigned.

A second Government of National Reconciliation was formed in January 2006, led by a new prime minister, Charles Konan Banny, who was formerly Governor of the Central Bank of the States of West Africa (BCEAO). His administration is trying to speed up full implementation of the Marcoussis peace agreement and organise elections to be held in October 2006.

Delays in implementing the peace agreement have provoked several outbursts of political violence over the past three years.

The most serious incident occurred in November 2004, when government war planes attacked rebel positions in the north and bombed a French military base in the rebel capital Bouake, killing nine French soldiers. The French retaliated by disabling most of the government's jets and helicopters on the ground, a move which triggered several days of anti-French riots in Abidjan.

A fresh outburst of violence by supporters of President Gbagbo took place in January 2006. This time their protests were directed against the United Nations. Militia-style youth movements supporting President Gbagbo attacked several UN installations in Abidjan and western Cote d'Ivoire after a UN-led international working group recommended that the mandate of parliament should not be extended beyond its normal five-year term.

Parliament is dominated by Gbagbo's FPI party, which has been repeatedly accused of blocking the passage of political reforms agreed at Marcoussis.

The political situation in Cote d'Ivoire remains deadlocked. It is uncertain whether that elections will take place in October as planned. The New Forces have said that unless rapid progress is made on key issues such as the issue of national identity cards, Cote d'Ivoire will either revert to open conflict or the rebel administration in the north will start to establish more permanent structures of government.

Few political analysts expect an early return to full-scale conflict, provided that international peacekeepers remain in the country. However, the consolidation of administrative autonomy in the north would make it more difficult to achieve national reunification in the long run and could pave the way for de facto secession.

2.1.2 Diamond mining

Alluvial diamonds are found in northern Cote d'Ivoire, in the area currently occupied by the New Forces rebel movement. Most of the stones are small and of industrial rather than precious gem quality. The main mining area is situated around the town of Seguela in west central Cote d'Ivoire. There is also a smaller and less productive diamond field at Tortiya in the north. Commercial diamond mining began in the 1930s.

During the 10 years before civil war erupted in 2002, officially recorded diamond production averaged around 250,000 carats per year. This generated annual export revenues of US$25 million to $30 million.

No statistics have been compiled on diamond production since the civil war began, but output is widely believed to be continuing at a similar level. A UN mission of experts that visited Cote d'Ivoire in 2005 estimated pre-war production at 300,000 carats per year.

President Gbagbo banned diamond exports in November 2002 following the rebels' capture of the diamond fields. The UN Security Council imposed its own embargo on rough diamond exports from Cote d'Ivoire in Resolution 1643 of December 15th 2005.

Industrial mining ended in 1976 and since then all production has been generated by artisanal miners. According to officials from the Ministry of Energy and Mines, the number of people engaged in artisanal mining has fallen steadily over the past 20 years. However, officially recorded production has remained remarkably stable.

Ministry officials reckon that today, between 20,000 and 30,000 miners are active in the Seguela region and between 5,000 and 10,000 in Tortiya.

Other estimates of the number of people involved in diamond mining are much lower.

New Forces officials in Seguela told International Alert that about 5,000 to 10,000 miners were active in the district. The number of miners working at Tortiya is widely believed to be much smaller; however the International Alert team was unable to visit this area due to time constraints, nor was it able to get a reliable independent estimate of the number of diggers working there. One aid worker who visited Tortiya recently said there appeared to be only a few dozen miners still working in the district. Several sources said many diamond miners had left Tortiya recently to work at a new gold mine in southern Mali.

Traditionally, about 80 percent of the diamond miners in Cote d'Ivoire have been fortune seekers from all over West Africa. This situation does not appear to have changed since the rebel seizure of the diamond fields. The International Alert research team encountered miners at Seguela from Mali, Burkina Faso, Ghana and Liberia.

Artisanal diamond mining was officially banned between the gaining of independence in 1960 and 1984, but mining continued clandestinely, giving rise to widespread lawlessness in the diamond producing areas.

In 1984, the government decided to legalise artisanal mining in order to restore law and order. It passed a new law to regulate the sector, which handed over much of the responsibility for controlling diamond production to the local communities where mining took place. Diamond mining was viewed by the state primarily as a security and local development issue and not as a major potential source of government revenue. Cocoa, the country's principal export commodity, brings in about nearly 100 times more foreign exchange than diamonds. The annual cocoa crop of around 1.3 million tonnes is worth over US$2 billion.

In 1986, the government created 24 village councils in the Seguela area, known as Groupements Vocationels Cooperatifs (GVCs) to license and administer the artisanal diamond mines there. The Société pour le Developpement Minier en Cote d'Ivoire (SODEMI), a parastatal offshoot of the Ministry of Energy and Mines, demarcated the land earmarked for artisanal mining in each GVC into plots. SODEMI retained control of the remaining land with an eye to the possible resumption of industrial mining. The GVCs licensed out the plots allocated to them for a fee of US$5 per hectare per year.

Since then, all diamonds found in artisanal mines within the jurisdiction of a GVC have had to be sold by the mine owner to a dealer in the presence of GVC officials. A 20 percent tax is levied on the sale price at this point. Of this, 12 percent is retained by the GVC for spending on community development projects. Eight percent goes to central government.

This local taxation system has remained in place since the New Forces seized control of Seguela three years ago. The only difference is that the government's eight percent share is now collected and retained by the rebel authorities instead.

GVCs were not formed in Tortiya, where SODEMI licensed miners to exploit small plots and sell their stones direct to dealers without the local community levying a tax on the transaction.

Before the civil war broke out, rough diamonds were valued by central government in Abidjan before shipment overseas. A further 18 percent export tax was levied on the stones at the point of export by Customs.

This tax is no longer collected. Since the New Forces rebel movement occupied the diamond producing areas of Cote d'Ivoire in September 2002, mining has continued much as before.

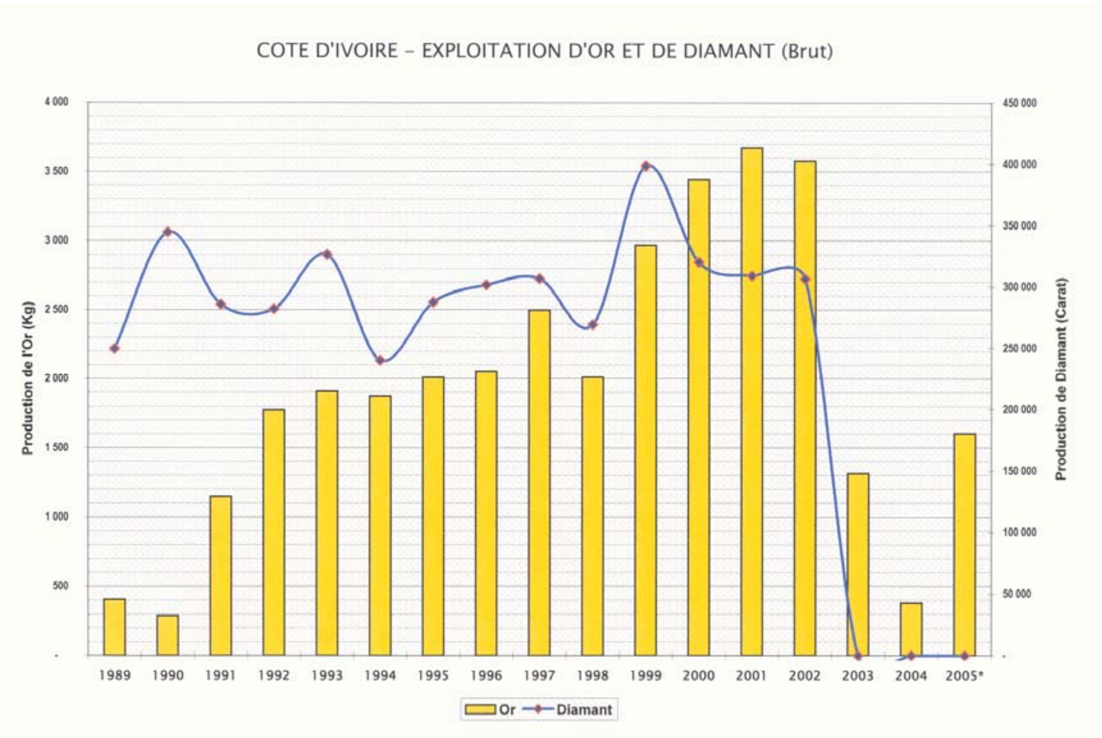
New Forces military commanders and civilian administrators in Seguela said that the overwhelming majority of diamond buyers active in the district were traders who had been buying stones there before the civil war. They also noted that some new diamond traders have also set up shop, including one Lebanese dealer who was formerly resident in the Democratic Republic of Congo.

New Forces officials, mine workers and other local residents in Seguela said that many of the diamonds produced in the rebel-controlled area were still sent south to exporters based in Abidjan. Others were reported to be smuggled into Guinea and Mali.

Diggers interviewed at Seguela said local dealers paid them up to 350,000 CFA francs (US$650) for large gem quality stones weighing between two and six carats.

Although the industrial extraction of diamonds ended 30 years ago, the government remains hopeful of attracting new investors once peace returns to the country. The Australian mining company Carnegie Minerals was prospecting around Seguela when civil war broke out in 2002 and had drilled several test wells. Golden Star, a UK-based company had meanwhile expressed interest in the resumption of industrial mining at Tortiya.

Figure 1: Gold and diamond exploitation in Cote d'Ivoire



Yellow columns represent gold, blue line represents diamonds
Source: Government of Cote d'Ivoire

2.1.3 Conflict diamonds?

The UN Security Council resolution imposing diamond sanctions on Cote d'Ivoire in December 2005 cited "the linkage between the illegal exploitation of natural resources such as diamonds, illicit trade in such resources, and the proliferation and trafficking of arms and the recruitment and use of mercenaries as one of the sources of fuelling and exacerbating conflict in West Africa".

However, none of the diamond experts, aid workers, UN officials or political analysts interviewed in Cote d'Ivoire considered locally produced diamonds to be an important source of revenue for the New Forces. They all regarded taxes levied on truck movements of cocoa, coffee, timber, cotton, cashew nuts and imported fuel as more significant sources of cash for the rebel movement.

New Forces commanders in Seguela said that the revenue raised from the eight percent tax on locally produced diamonds did not even cover the full cost of stationing a 120-strong group of New Forces soldiers in the diamond producing area to maintain security there.

However, several sources said some of the New Forces military commanders responsible for security in Seguela and Tortiya, appeared to be enriching themselves personally themselves from diamond mining. They noted that some of these men had recently acquired brand new four-wheel drive vehicles and had begun to show other signs of new-found wealth.
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New Forces leader Guillaume Soro told the International Alert researchers that the rebel movement simply allowed people to continue mining in order to secure their economic survival, asking "how can we tell these people to stop mining for diamonds? It would be like ordering a peasant to stop cultivating his land".

New Forces officials in Seguela told International Alert that they collected the eight percent tax levied at GVC level that previously went to central government. They said this tax yielded less than US$4,000 per year, although such a figure seems to be unrealistically low.

The GVC in the mining village of Bobi - one of 24 mining communities in the Seguela area - said that it received between US$10,000 and $20,000 per year from its 12 percent levy on locally produced diamonds.

However, the International Alert mission concluded that although there is a continuing state of dormant conflict in Cote d'Ivoire, diamonds were not in any way responsible for causing or prolonging the civil war. It also concluded that diamonds represent a very modest source of revenue for the New Forces. They are not a significant factor in sustaining the rebel movement or financing its purchases of arms and ammunition. Cocoa, coffee, timber and cotton are all far more significant commodities in this regard. The New Forces appeared to be in full control of the diamond mining areas.

2.2 GUINEA

2.2.1 Political background

Guinea is one of the most mineral-rich countries in Africa, yet also one of the poorest. It contains nearly half the world reserves of bauxite and abundant reserves of iron ore, nickel, gold and diamonds. It is also blessed with plentiful rainfall and huge agricultural potential that is currently under-exploited. Yet the country's infrastructure is falling apart and the living standard of its people has been falling steadily for several years.

This country of eight million people has known only two presidents since independence from France in 1958. Both have been authoritarian rulers who have spent heavily on security.

The government's overriding concern with security has impeded political liberalisation, but has so far helped preserve Guinea from internal conflict. Guinea has avoided being sucked into the conflicts that have engulfed four of its neighbours: Sierra Leone, Liberia, Cote d'Ivoire and Guinea-Bissau.

However, President Lansana Conte, who has ruled Guinea with an iron hand for the past 22 years, suffers from failing health and has no obvious successor. His public appearances have become increasingly rare.

There are widespread fears that Guinea could succumb to a military coup or lapse into conflict when Conte dies or if he is obliged to relinquish power. He survived an attempted coup in 1996, when rebel factions of the army bombarded the presidential palace and burned it down and he also survived an attack on his motorcade by unidentified gunmen in January 2005.

The presence of several thousand armed and largely unemployed men in the Forest Region of south-eastern Guinea is a particular cause for concern. Many of them are former militia fighters recruited by the government to repulse an attempted invasion from Sierra Leone and Liberia in 2000 and 2001. Others are former combatants in those two countries' civil wars who have drifted across the border. Diplomats regard this idle pool of armed men as a dangerous and potentially destabilising factor in local politics.

The government of Guinea has consistently resisted attempts by international donors to make it embrace economic and political reform. As a result, the country has received much less foreign aid than it might have done otherwise.

Corruption is endemic at all levels of society, the country's infrastructure of roads, schools and hospitals is deteriorating, electricity and water supplies are erratic and the meagre purchasing power of local wages continues to decline.

Steep rises in the cost of rice and fuel have sparked several outbursts of public unrest, some of which have been accompanied by rumours of an impending coup. An unprecedented five-day general strike in March 2006 shut down the country and forced the government to concede a 30 percent rise in public sector wages.

Guinea is an unpredictable and potentially unstable country with poor standards of governance. Profound political change could occur at any time. But equally, if nothing happens to provoke a serious crisis that endangers public order, the present regime could remain in place for several years yet.

2.2.2 Diamonds

Diamonds are Guinea's third largest source of foreign exchange after bauxite and gold.

However, illicit mining and smuggling are rife, artisanal mining is largely unregulated and official figures regarding local production are questionable. Diamond experts have highlighted huge inconsistencies between recent production and export figures produced by the Guinean government. They have also pointed to major discrepancies between Guinean diamond export statistics and the import figures for Guinean diamonds published by the country's main trading partners.

According to the Minister of Mines and Geology, Guinea exported 523,735 carats of diamonds worth nearly US$56 million in 2005. Output decreased from 739,888 carats valued at just over US$51 million in 2004.

This sharp fall in volume production is attributed to the fact that Guinea's only industrial diamond mine remained closed throughout 2005. The mine reopened in January 2006 and is run by the Association pour la Recherche et l'Exploitation du Diamant et de l'Or (AREDOR), a company controlled by an investment vehicle based in Canada. AREDOR normally contributes between 10 and 20 percent of Guinea's officially recorded diamond production.

According to Ministry of Mines and Energy officials, more than two thirds of the diamonds produced in Guinea are of gem quality. The remainder are industrial stones.

Guinea claims to produce as many diamonds as Sierra Leone and more stones of gem quality. However, the export value ascribed to Guinea's diamonds for each of the past two years is less than half that calculated by Sierra Leone's Gold and Diamond Department.

Ministry officials suggest that the difference in valuation was due to a relative scarcity of large diamonds of particularly high value passing through Guinea's export valuing department, the Bureau National d'Expertise.

All the same, Guinea has a record of producing some exceptionally large diamonds. In 2004, the discovery of a 182-carat diamond was widely publicised. Either large high value diamonds are extremely rare in Guinea, or most of them are simply being smuggled out of the country.

Guinea only produces alluvial diamonds at present, although the country is believed to have huge Kimberlite potential.

The richest mining area is Banankoro in the Kerouane prefecture of south-eastern Guinea, about 500 km due east of the capital Conakry. This is where the AREDOR mine is situated. Tens of thousands of artisanal miners work the gravel deposits around AREDOR's 1,000 square km concession.

According to the Coordination Nationale de Diamantaires et Orpailleurs (CONADOG) – the national confederation of diamond and gold traders - Kerouane produces about three quarters of Guinea's diamonds.

Two smaller diamond mining areas, centred on Kindia and Forecariah, near Conakry, and Kissidougou and Macenta, 500 km southeast of the capital, each account for about 10 percent of national production.

A fourth, smaller diamond mining area is situated near Nzerekore, the capital of the remote Forest Region of south-eastern Guinea. Traders said the stones found there are virtually identical in characteristics to those produced in Liberia's nearby Nimba county. Many Nimba diamonds are said to cross the border and are exported from Guinea as stones of Nzerekore origin.

CONADOG said that its members stopped trading diamonds from Sierra Leone in 2005 after coming under pressure from the Kimberley Process to abandon this practice. However, other sources said that diamonds from Sierra Leone, Liberia and Cote d'Ivoire continue to flow into the country.

The International Alert team could not obtain any credible estimates for the real level of Guinean diamond production or for the volumes of diamonds that are smuggled into and out of the country.

Officials of the Ministry of Mines and Geology estimate that about 100,000 people are involved in artisanal diamond mining in Guinea, but the Centre Internationale pour le Developpement et le Commerce (CECIDE), a local NGO focussed on trade and mining issues, puts the figure much higher at 200,000 to 250,000.

According to a Ministry official, the government began issuing diamond mining licences to artisanal miners in the Banankoro area in 2002. It has currently issued licences for more than 400 one hectare plots of land on a 200 square km area of land ceded by AREDOR from its original concession in the district.

All other artisanal mining activities in the country are currently informal and unlicensed. However, as elsewhere in West Africa, de facto control of diamond mining activities by the local authorities does exist.

Diamond mining in the Kindia district, 125 km east of Conakry, has been expressly banned since 1998 in order to conserve what is left of the local forest cover and water resources. However, just outside Kindia town, the International Alert team found one large diamond pit with about 80 diggers working inside. It was being monitored by two uniformed soldiers. The diggers said they paid money to the local village chief to be allowed to work the mine and 10 percent of the value of all diamonds found to the local army commander. The soldiers said they were there to maintain security and prevent fights breaking out between rival gangs of diggers.

Guinea introduced a Certificate of Origin system for locally produced diamonds in 2000, similar to that of Sierra Leone. It joined the Kimberley Process in 2003. The government levies a three percent export tax on diamonds. This is based on their valuation by the Bureau Nationale d'Expertise, a department of the Ministry of Mines and Geology that values all legally traded diamonds before export and issues them with the necessary Kimberley Process certificate.

In the case of AREDOR, the government also levies a 10 percent mining tax on the firm's diamond production. Nine percent is retained by central government and one percent is returned to the Kerouane prefecture for spending on local development projects. This 10 percent mining tax is not applied to artisanal diamond production.

Table 1: Officially recorded diamond production in Guinea, 2001-2005

Year	Exports in carats	Value (US$)	Average value per carat (US$)
2001	183,633	11.4 million	62
2002	491,154	26.9 million	55
2003	644,745	46.4 million	72
2004	739,888	51.4 million	69
2005	523,735	55.8 million	107

Sources: Kimberley Process Certification Scheme
Ministry of Geology and Mines

2.2.3 Conflict diamonds?

The attempted invasions of Guinea in 2000 and 2001 by Guinean rebels, fighters of the Revolutionary United Front (RUF) rebel movement in Sierra Leone and Liberian fighters loyal to Charles Taylor were aimed in the first instance at capturing Guinea's diamond mining areas. The RUF was already financing itself by mining diamonds in Sierra Leone and passing them on to Taylor to sell in the world market. However, the invaders failed to seize and occupy Guinea's diamond fields. They were eventually driven out by the Guinean army, backed by a hastily formed government militia.

It is said that part of Guinea's diamond production has been siphoned off in recent years by senior state officials, either for self enrichment or for spending on secret projects that do not figure in the government's regular budget. According to diamond researchers in Guinea, before AREDOR stopped production in November 2004, a portion of its diamond output was flown out of Banankoro on a private plane every Friday afternoon to Conakry. From there, presidential security agents ensured that the consignment bypassed inspection by customs or the Bureau National d'Expertise and was shipped out of the country, either by air or by road to Sierra Leone. These Friday afternoon diamond flights have also been documented by the Guinean mining newspaper *L'Aurore*.

Guinea's political stability is extremely fragile and there are fears that lack of consensus in the presidential succession could plunge the country into civil conflict. If that were ever to happen, there is a risk that the rival factions scrambling for power would fight for control of the diamond fields in order to secure a revenue base for their activities.

The lack of government regulation of artisanal diamond mining, the high level of smuggling and the inability of the mechanisms governing the Kimberley Process to accurately trace back many of the diamonds that it certifies to their real mine of origin are all factors that contribute to these ambiguities, making any regulatory measure difficult to implement, which create conditions ripe for a potential security problem.

2.3 LIBERIA

2.3.1 Political background

Liberia is slowly recovering from the devastating effects of a 14-year civil war that lasted from 1989 to 2003.

A 15,000-strong UN peacekeeping force, the United Nations Mission in Liberia (UNMIL), maintains law and order. Following a peace agreement signed in August 2003, it disarmed Liberia's rival armed factions and enabled free and fair presidential and parliamentary elections to be held in October 2005.

Ellen Johnson-Sirleaf, the winner of the presidential election, was sworn in as Liberia's new head of state on January 16th 2006. However, she faces the daunting task of rebuilding this shattered country of three million people with virtually no tax revenue to finance the government's budget.

The productive sector of the economy remains virtually paralysed, so President Johnson-Sirleaf must rely on international aid to pay the civil service, train a new police force and army and resettle 450,000 refugees and 300,000 internally displaced people.

She must also rely on foreign aid to rebuild roads, schools and hospitals and to restore water and electricity supplies. The capital, Monrovia, has been without piped drinking water or mains electricity since the early 1990s.

Before the civil war, Liberia's economy was fuelled by exports of iron ore, rubber, timber, cocoa, coffee, gold and diamonds. However, iron ore production ceased in 1990, shortly after the conflict began and exports of timber and diamonds remain banned by the UN Security Council. Today, Liberia's only legal export commodity of any significance is rubber. The government's only independent sources of revenue at present are import duties, port and airport dues and revenues from the Liberian shipping registry.

The institutions of government virtually collapsed during the rule of former president Charles Taylor from 1997 to 2003. Civil servants went unpaid for months at a time and fighting with the LURD (Liberians United for Reconciliation and Democracy) and MODEL (Movement for Democracy in Liberia) rebel movements led most government employees in the interior to desert their posts. For all those deprived of a salary, the acceptance of bribes became a necessity for economic survival.

Today, one of the major challenges facing Liberia's new government is to restore proper governance to the country on a shoestring budget. Civil service wages remain woefully inadequate – most government employees earn between $15 and $30 per month – and the deeply ingrained practice of corruption will be difficult to eradicate.

Western donors encountered endemic corruption in the upper echelons of the National Transitional Government of Gyude Bryant, which ruled Liberia from October 2003 to January 2006. They reacted by devising a system of rigorous external controls on public sector finances known as the Government Economic Management and Assistance Plan (GEMAP).

Agreed with the Transitional Government in late 2005, GEMAP provides for foreign experts to be placed in the central bank and several other key positions to monitor and control revenue collection and spending and to vet the award of contracts.

In May 2001, the UN Security Council imposed an arms embargo and a ban on Liberia exporting rough diamonds. These punitive measures followed revelations that Charles Taylor was using diamonds mined illegally in rebel-controlled areas of neighbouring Sierra Leone to finance and arm the Revolutionary United Front (RUF) rebel movement in that country.

The UN embargo was extended to timber exports in May 2003 in the light of evidence that Taylor was using exports of Liberian timber to fund arms purchases for his own administration. By then Taylor was losing ground rapidly to LURD and MODEL.

The UN Security Council renewed its sanctions on Liberian diamond and timber exports for a further six months on 20 December 2005. These sanctions will only be lifted once the Liberian government demonstrates convincingly that it has re-established effective control and is in a position to offer responsible management of mining and forestry in the country.

Determined efforts are being made in this regard. USAID is helping the Ministry of Lands, Mines and Energy to become fully compliant with the demands of the Kimberley Process with a view to persuading the UN Security Council to lift its embargo on Liberian diamond exports later this year. USAID is currently building a new diamond valuing office adjacent to the Ministry of Lands, Mines and Energy headquarters, which will be run by an independent international diamond consultant for its first three years of operation to lessen the likelihood of corruption.

Liberia is likely to remain stable and peaceful so long as UNMIL retains a large peacekeeping force in the country to dissuade potential agents of destabilization. However, the institutions of government are very weak and Charles Taylor will remain a potential source of future destabilisation even as he faces the Tribunal responsible for International Crimes in the Sierra Leone conflict. Even if Liberia continues to receive heavy inflows of foreign aid to rebuild its shattered infrastructure and President Johnson-Sirleaf manages to carry through her programme of administrative reform, it is likely to be several years before the authorities can exert strong and effective governance without close international oversight.

2.3.2 Diamond mining

Commercial diamond mining began in Liberia during the 1930s. Since then alluvial deposits have been exploited in the Lofa river basin in the Lofa, Gbarpolu and Grand Cape Mount counties of north-western Liberia and in Nimba County, which juts out of northern Liberia and borders both Guinea and Cote d'Ivoire.

In 2003, at the end of the civil war, new diamond and gold fields were discovered in Sinoe county in central Liberia. Their discovery triggered a rush of several thousand fortune seekers to this remote and previously unexploited area.

According to the Ministry of Lands, Mines and Energy, production consists of roughly 50 percent industrial diamonds and 50 percent gem quality stones.

During its travels within Liberia, the International Alert research team found that widespread diamond mining was continuing in the Lofa valley and Nimba, despite the UN export embargo imposed in March 2001 and a formal ban on diamond mining declared by the government in January 2005. The team also received credible reports that large-scale diamond mining was still under way in Sinoe County.

Liberian government statistics on diamond production and exports have not been kept for many years. Even when figures were compiled on a regular basis, more than 20 years ago, they failed to take into account the significant volumes of diamonds smuggled both into and out of the country. It should be noted that Liberia was the transit point for conflict diamonds that came out of Sierra Leone during the 1990s, extracted by the RUF. It was always difficult to rely on statistics about Liberian diamonds, and it remains difficult to know with any degree of accuracy how many diamonds Liberia produces today or has done in the past.

Government statistics show diamond exports fluctuating between 301,000 and 817,000 carats per year between 1965 and 1983. During that period, Liberia used the US dollar as its national currency, so the country attracted a heavy influx of smuggled diamonds from other producer states in West Africa, which had less convertible currencies. The total value of officially reported diamond exports fluctuated between US$18 million and $41 million per year.

The value of diamond exports has not been officially recorded since 1985 and no government statistics of diamond exports have been produced at all since 1989. With UN sanctions in place for the past five years, all diamond exports now take place illicitly.

Dealers said that some Liberian diamonds go to Sierra Leone, Guinea and The Gambia, while others are exported directly from Monrovia to major world markets such as Antwerp and Dubai. All such trades are taking place in defiance of the Kimberley Process.

In 2004, the US Geological Survey estimated Liberia's diamond production capacity at between 100,000 and 430,000 carats per year. A mission from the US Geological Survey was due to visit Liberia in March 2006 to produce an accurate estimate of the country's diamond production capacity that will be used to help implement the Kimberley Process.

Just as the volume of diamond exports is difficult to quantify, there is a lack of clarity regarding the value of local production.

In its 2004 paper, 'Diamonds without Maps', Partnership Africa Canada, an NGO with a long record of documenting human rights abuses in West Africa, estimated that Liberia's diamond production capacity was no more than US$10 million per year. However, government officials regard this as too low. One foreign mining expert helping the government estimated the potential capacity of alluvial diamond production in Liberia at around US$30 million per year.

Diamond dealers in Monrovia told International Alert that local production was rising, but was still slightly lower than before the civil war.

Kpandel Fayia, the Deputy Minister of Mines, estimated that 150,000 people were involved in artisanal diamond mining in Liberia before the start of the civil war. However, one former Minister of Mines reckoned the true figure was much lower at around 50,000.

Likewise, there is no consensus about the number of diamond miners active today.

Even within the Ministry of Lands, Mines and Energy, there were huge variations in estimates given to International Alert by senior officials, ranging between 1,000 and 50,000.

In Sinoe County alone, the number of participants in the gold and diamond rush of the past three years has been estimated by UN officials to have reached 40,000.

The Sustainable Development Institute, a Liberian NGO focused on environmental issues, sent a mission to investigate the spontaneous mining settlements called 'Iraq' and 'Afghanistan' in Sapo National Park in Sinoe county in February 2005. The mission said in its report that between 3,500 and 5,000 people were living there, many of whom were diamond miners from the Lofa river basin.

Another spontaneous gold and diamond mining settlement which grew to a population of several thousand people sprung up on the former Butaw Oil Palm Plantation (BOPC) in another part of Sinoe County. However, the number of miners there fell sharply following a cholera outbreak in July 2005, which killed over 200 people.

Cholera was not the only reason that people left Sinoe county. Some diamond miners interviewed by International Alert said they had abandoned Sinoe because the stones they found there were smaller and less valuable than those available in the Lofa river valley. Others said that most of the diamonds that were close to the surface and easy to mine with basic implements had been recovered. They said that heavy earth-moving equipment and powerful water pumps were now required to uncover gravel beds buried under several metres of overburden.

The scale of artisanal mining witnessed by the International Alert team suggests that several thousand people are still engaged in artisanal diamond mining in Liberia, despite the closure of one or two high-profile mines such as the Gbapa pit in the far north of Nimba County. Thomah-Seh Floyd, alias Jungle Water, the kingpin of diamond mining in Nimba county, said he employed between 500 and 1,000 ex-combatants digging for diamonds at his Gpaba mine until late 2004.

Although a formal licensing system for artisanal mining claims once existed in Liberia, it is no longer being applied. Most people appear to dig wherever they want providing they have obtained the consent of the local village chief. Others assert their right to work mining claims that they registered with the government in the past.

The civil war has wrought a profound social change in the structure of Liberia's diamond mining communities.

Previously, most of the mining in Nimba County was carried out by members of the Mandingo ethnic community. The Mandingoes, who have a reputation as petty traders throughout West Africa, were also heavily involved in buying diamonds from miners in the bush.

However, during the early stages of the civil war, the Mandingo miners in Nimba county were forced out of the villages where they lived alongside people of the locally dominant Mano and Guio tribes. The Mandingoes sided with the government of President Samuel Doe, whereas their Mano and Guio neighbours overwhelmingly supported the insurgent forces of Charles Taylor, which soon gained the upper hand in Nimba county.

The Mandingoes fled to nearby Guinea and very few have returned to Nimba county since the end of hostilities. Most of the diamond mining there is now carried out by Mano and Guio villagers who were previously engaged solely in agriculture.

The Mandingo, however, remain prominent in financing artisanal mines and in diamond trading in the Lofa valley,where the Mandingoes traditionally paid local residents from other tribes to dig for them. During the latter stages of the civil war, this part of Liberia became a stronghold of the LURD rebel movement. Many of the miners in Lofa today are former fighters who served with LURD and its forerunner ULIMO.

A large number of those who joined the gold and diamond rush in Sinoe county were also ex-combatants from different factions. Jungle Water said several hundred of the (pro-Taylor) ex-fighters he formerly employed at the Gbapa mine in Nimba county left for Sinoe when he decided to close the pit under pressure from the United Nations.

According to the Sustainable Development Institute, the Sinoe gold and diamond rush also attracted large numbers of fortune seekers from Guinea and Sierra Leone.

The dealers and dealers' agents who buy diamonds in the bush are mostly Mandingoes and 'Maraka' traders from other West African countries, particularly Guinea, Mali, Senegal, Gambia and Mauritania. However, most of the big dealers and exporters in Monrovia are Lebanese. Several Lebanese diamond traders are known to have relocated to Monrovia from towns in the interior of Sierra Leone following the end of the Liberian civil war in 2003. Much of the country's production reportedly ends up in Dubai and Russia.

Buyers are reported to pay diamond miners about one third of their stones' value on the world market. Prices vary tremendously, but intermediaries often pay mine owners and mine supporters between US$50 and $100 per carat for gem quality stones and less for industrials. Kimberlite mining has not yet started in Liberia, but the government has high hopes that that it can be developed with the help of foreign investment in the near future. Two companies are currently prospecting for Kimberlite diamonds in north-western Liberia in and around the Lofa river basin: Mano River Resources and Diamond Fields International.

The Ministry of Lands, Mines and Energy said these two companies had so far located 12 Kimberlite pipes of which six were diamantiferous. One senior official predicted that Kimberlite mining would start within three or four years.

2.3.3 Conflict diamonds?

It is beyond dispute that Charles Taylor helped to finance the 1991-2002 RUF rebellion in Sierra Leone by exchanging illegally mined diamonds from that country for guns and ammunition.

He was also a strong supporter of armed incursions into Guinea by Guinean rebels backed by Sierra Leonean RUF rebels and Liberian government militias in 2000 and 2001. These attacks, which the Guinean government managed to repulse, were aimed primarily at seizing control of Guinea's main diamond mining areas.

Furthermore, Taylor enriched himself and helped to finance his domestic security forces by exercising direct control of the diamond mines within Liberia. During the late 1990s all diamonds produced in the country were sold by government order directly to the President or to senior officials of the Ministry of Lands, Mines and Energy.

James Daniel, alias Jungle James, became a wealthy diamond miner and trader in the Lofa Bridge area under Taylor's protection. He claims to have amassed a fortune of US$5 million to $6 million, much of which was frittered away. The research team heard credible reports that on more than one occasion, Jungle James brought huge quantities of diamonds personally to Taylor in gallon-sized mayonnaise jars.

Since August 2003, when Taylor was forced to step down and went into exile in Nigeria (where he has since been apprehended), diamonds no longer fuel conflict in Liberia but they remain a potential source of instability.

Officials of the Ministry of Lands, Mines and Energy said that some ex-combatants in the Lofa valley had threatened to take up arms again to defend their diamond mines if anyone tried to interfere with their clandestine mining activities.

The United Nations Mission in Liberia (UNMIL) registered more than 105,000 people as former combatants during its disarmament exercise, which ran from December 2003 to November 2004. However, many of these people were civilian opportunists seeking the cash benefits, schooling and vocational training packages on offer to those who registered as ex-fighters. The number of people who actually fought during the conflict is probably nearer 50,000. Nevertheless, there has been a big shortfall in the international aid required to finance their rehabilitation, so many ex-fighters, faced with limited employment opportunities, have drifted into gold and diamond mining.

In the absence of other measures to keep ex-fighters gainfully occupied and to prevent them from drifting into crime or mercenary activities in neighbouring countries, artisanal mining has strong potential. Mining for diamonds and gold may be tough and poorly paid work, but it offers ex-combatants a sense of prestige and a chance, even if slim, of making a fortune that they would not have in poorly paid manual labour in the towns.

Although UNMIL has 15,000 peacekeeping troops on the ground in Liberia and a large air force equipped with transport planes and helicopters, it has not played a major role in trying to suppress diamond mining in the country. UNMIL forces were used on two occasions to clear diamond miners out of the BOPC plantation in Sinoe county and the Gbapa mine in Nimba. UNMIL helicopters also carry out aerial reconnaissance in the Lofa valley and Nimba. However, the International Alert team did not come across any instances of UNMIL ground patrols being used routinely to monitor or prevent illegal mining.

2.4 SIERRA LEONE

2.4.1 Political background

Sierra Leone is trying cautiously to stand on its own two feet again after a devastating 10-year civil war, which was followed by six years of sustained support from the United Nations.

The United Nations Mission in Sierra Leone (UNAMSIL), which at its peak had 17,000 peacekeeping troops in the country, withdrew the last of its forces in December 2005.

There is a residual UN military presence in the form of 250 Mongolian troops on loan from UNMIL in neighbouring Liberia. They are stationed in the capital, Freetown to protect the UN-backed Special Court; the international war crimes tribunal set up to try those deemed to bear the greatest responsibility for atrocities committed during Sierra Leone's 1991-2001 civil war.

Peace prevails throughout the country. Most of the 400,000 people who were refugees in Guinea and Liberia and up to one million internally displaced people have returned home and resumed farming. The countryside is full of newly rebuilt villages with freshly painted schools and brand-new water pumps.

However, corruption in government remains endemic, not least because civil servants are poorly paid. Most earn less than US$50 per month, and the cash-strapped government cannot afford to pay them more. Unemployment also remains high, especially in the towns.

The UK continues to pour about $180 million of aid per year into this country of five million people. It also provides military instructors to train Sierra Leone's reconstituted army. However, the country no longer benefits from heavy spending by UNAMSIL and its staff.

Nevertheless, the economy is still growing fast from a low base as people returning to the countryside boost agricultural production and foreign investors return to the mining sector to exploit diamonds, gold, titanium and bauxite.

Sierra Leone's fledgling democracy will face its first big test when presidential and parliamentary elections are held in 2007 without the presence of foreign peacekeepers to maintain order and guarantee fair play.

President Ahmad Tejan Kabbah, who was elected amid the chaos of civil war in 1996 and was re-elected for a second term in UN-supervised polls in 2002, is standing down.

Vice-President Solomon Berewa has been chosen as the official candidate of his ruling Sierra Leone People's Party (SLPP), but the SLPP faces potentially crippling internal splits and the opposition parties are gaining strength.

There are continuing doubts about the loyalty of the army to the elected government and its capacity to defend Sierra Leone from external attack or a renewed insurgency. However, the police are widely viewed as a more effective and reliable security force.

The consolidation of peace and economic recovery in Sierra Leone may also be threatened by turbulent regime change in neighbouring Guinea. Sierra Leone presently enjoys a fragile stability, but it remains vulnerable to political infighting at home and the overspill of potential conflict in Guinea.

2.4.2 Diamonds

Sierra Leone is the largest diamond producer in West Africa and diamonds are the country's most valuable export commodity, accounting for 90 percent of the country's exports. About half of Sierra Leone's diamond production is of gem quality. The other half consists of industrial grade stones. However, gem stones account for over 90 percent in terms of value

According to official figures, Sierra Leone exported 668,655 carats of diamonds in 2005, worth nearly US$142 million. That represents a dramatic increase from 205,850 carats worth $26 million in 2001, when the country began to emerge from a decade of civil war.

The main production areas are in the east of the country: Kono district, about 250 km east of the capital, Freetown, and Tongo district, 50 km south of Kono.

Commercial production of alluvial diamonds began in the 1930s and peaked at around two million carats per year in the late 1960s, shortly after independence. Output tailed off during the 1970s and 1980s as the diamond industry was nationalised and became plagued by corruption and inefficiency. At the same time, illicit artisanal mining began to flourish.

At several points during the civil war, between 1992 and 1999, the main diamond mining areas were completely overrun by the rebel Revolutionary United Front (RUF). The rebels mined diamonds to finance their war effort, shipping them to Charles Taylor, their ally and supporter in neighbouring Liberia.

The UN Security Council imposed an export ban on Sierra Leonean diamonds in July 2000 at the tail end of the country's civil war, but this was lifted in July 2003, following the country's acceptance in the Kimberley Process.

The Kimberley Process is based on a Certificate of Origin scheme, which the Sierra Leone government introduced in 2000 to identify diamonds that had been legally exported.

The massive increase in officially reported diamond production over the past five years is not just the result of normal mining activities resuming with the return of peace. It is also the result of sustained efforts by the government and international donors to ensure that more of Sierra Leone's diamonds are exported through legal channels. Much of the increase in officially recorded exports represents existing output being recorded.

A large percentage of locally mined diamonds are still smuggled out of the country, mainly to Guinea and the Gambia. Sierra Leone meanwhile receives a substantial influx of smuggled diamonds from Liberia and Cote d'Ivoire.

Estimates of the percentage of local diamond production, which is exported clandestinely vary enormously.

The Kimberley Process review team, which visited Sierra Leone in February 2005 estimated that between 15 and 20 percent of the country's diamond production was still smuggled out through Guinea and the Gambia.

Hisham Mackie, Sierra Leone's biggest diamond exporter, who handles more than 40 percent of the country's legally sold stones, estimated the volume of smuggled diamonds at no more than 10 percent of local production. However, other credible sources reckon the true level of smuggling to be much higher.[3]

The Peace Diamond Alliance, a USAID-funded initiative to help artisanal miners in Kono district, has estimated the true value of Sierra Leone's diamond output to be even higher - up to US$400 million.

Several sources said that many of the larger and more valuable stones, particularly those over 50 carats, were exported clandestinely.

The number of people employed in artisanal diamond mining in Sierra Leone is generally thought to be 100,000 to 150,000, although some estimates go as high as 200,000 and even 250,000. There is only one Kimberlite mine operational in Sierra Leone at present, located in Koidu, the headquarters town of Kono district. It is owned by Koidu Holdings, whose main shareholders are the South African-controlled companies Energem Resources, Magma Diamond Resources and BSG Resources. The mine, which was closed during much of the civil war, resumed production in 2004. It employs over 300 people and produced 16 percent of Sierra Leone's official diamond output in 2005.

With the return of peace, several other foreign investors have started to come into Sierra Leone to exploit alluvial as well as Kimberlite deposits. These include Britons, Israelis and South Africans. Some hope to open up new Kimberlite mines. Others aim to exploit alluvial deposits. A few, such as the UK-based SLDC, aim to do both.

However, several attempts by foreign companies to gain large mining concessions from the government have sparked conflict with artisanal miners already active on the same land.

The Ministry of Mineral Resources issues rights to extract minerals and the Chief issues the right to mine the land. Each licence requires a series of payments to local and central government which together amount to over US$330.

About 2,500 artisanal mining licences for claims measuring 200 feet by 200 feet are issued annually, but government officials admit that there is still a lot of clandestine mining. One senior official of the Ministry of Mineral Resources estimated that up to 20 percent of Sierra Leone's diamonds were produced from unlicensed mines.

The government levies a three percent export tax on diamonds. This is charged by the Gold and Diamond Department of the National Revenue Authority, which values all stones that are legally exported at its office in Freetown and issues them with the necessary Kimberley Process certificate.

A quarter of the export tax, equivalent to 0.75 percent of the diamond's value, is paid into the Diamond Area Community Development Fund (DACDF). This is used to finance development projects in the chiefdoms where mining takes place. Each chiefdom is allocated money from this fund annually according to the number of mining licences issued within its jurisdiction and the number of unusually large and valuable diamonds found there. The DACDF system of allocating funds according to the number of licences issued per chiefdom is open to abuse, and has led to conflict. A more equitable, and transparent way of allocating DACDF funds would be one based on production rather than the number of licences issued.

There is also legal provision for a five percent royalty on diamond production to be collected from miners, but this has never been levied on artisanal miners, partly because of administrative confusion over how the tax should be calculated and collected. However, presently only Koidu Holdings actually pay production royalties.

[3] One Western aid official who follows the diamond industry in Sierra Leone closely, told International Alert's researchers that "for every diamond that's going out through legitimate channels there is another going out illegitimately."

One of the challenges facing the artisanal mining industry in Sierra Leone is that many surface areas have been worked out and heavy industrial equipment is required to exploit diamond-bearing gravel beds which lie beneath them deeper underground.

Heavy earth moving equipment and large pumps will be needed to exploit these deeper alluvial deposits. However, it is beyond the financial capacity of most of the small-scale investors financing artisanal mines at present to supply such items.

Table 2: Sierra Leone officially recorded diamond exports 2001-2005

Year	Exports in carats	Value (US$)	Average value per carat (US$)
2001	205,850	26.0 million	117
2002	351,859	41.7 million	119
2003	506,723	76.0 million	150
2004	691,757	126.7 million	183
2005	668,655	141.9 million	212

Sources: Kimberley Process Certification Scheme
Partnership Africa Canada

2.4.3 Conflict diamonds?

Sierra Leone is a classic case of a country where diamonds have been used to fuel and sustain a civil war.

That conflict is now over and there is no reason to believe that any of the diamonds currently being mined in Sierra Leone are being used to undermine peace and security in the country or in any of its neighbours.

However, Sierra Leone's political stability remains fragile. The country could easily be sucked into the vortex of renewed conflict in Guinea or Liberia.

Its diamond fields would present an attractive source of revenue to any insurgent movement in the region seeking a way to finance its operations and they are only lightly defended.

Despite the introduction of the Kimberley Process, a large percentage of the country's stones are still mined clandestinely. These diamonds are either smuggled out of the country or they are laundered through the Kimberley Process by local diamond dealers presenting who present false receipts to the authorities.

Furthermore, there are no controls on the origin of the money that is used to buy diamonds in Sierra Leone. Most transactions, particularly at the local intermediary level, are in cash and do not pass through the local banking system. This creates a potential opportunity for money laundering by international criminal or terrorist networks.

There is a danger that, even though peace continues to prevail in Sierra Leone, the country's diamonds may serve as a means to finance criminal networks or armed political groups elsewhere in the world.

Diamond digger in Seguela, Cote d'Ivoire

3. Thematic Issues

3.1 The diggers' situation

3.1.1 Playing the casino with no money

Generally speaking, the diggers are young men aged between 15 and 40. They typically work seven days a week from 7am or 8am in the morning until 4pm in the afternoon, taking a short break for lunch at midday. It is dangerous work and health and safety rules are seldom applied.

The diggers often have to work submerged up to their waist in muddy water to dig out piles of gravel and wash gravel that has already been extracted. Many are buried and killed by collapsing earth as they excavate tunnels into the sides of mining pits. Others are drowned in the pools of water that collect in the bottom of the mine.

Diggers hired through the tributer system are entitled to a small share in the value of any diamonds found by the gang in which they work. However, the share of the mine owner is much bigger.

They generally receive a daily food ration – typically two or three cups of rice – plus a small amount of cash to buy sauce to go with the rice, or cigarettes. Their cash allowance is sometimes as little as 10 US cents per day and seldom more than 30 US cents.

In some cases in Sierra Leone, diggers receive a cash allowance of up to 50 US cents per day and no food ration. Practice varies from country to country and in some cases from mine to mine within a particular district. There is no standard.

Likewise the percentage share of the diamond sale price to which the digger is entitled varies considerably. In some instances, the gang that finds a stone shares its value equally with the mine owner. For example, if there are five diggers in the gang, the mine owner would receive 50 percent of the value and each of the diggers receives an equal share, i.e. 10 percent.

In other instances, the split may be less favourable. In Kono it is often one third for the diggers and two-thirds for the mine owner. In this case, each digger in a gang of five only receives six percent of the diamond's sale price.

Another profit-sharing system that was widely applied in Kono by the RUF rebel movement in the 1990s is the division of gravel piles. Each gang of diggers excavated several piles of gravel. Diamonds found in one set of designated piles were for the RUF. Any diamonds that the diggers found in the other piles could be kept for themselves. Today, some mine owners still use the piles system to split any diamonds found between themselves and their diggers, but this practice is discouraged by the government.

No formal rules have been established for the treatment of diggers under the tributer system. However, it is common for mine owners to look after their 'boys' during short periods of illness.

Diggers at Seguela in Cote d'Ivoire said that they received a cash allowance of 5,000 CFA francs (U$9) per week if they were too ill to work. In Liberia and Sierra Leone, the International Alert team heard of instances where mine owners or supporters continued to feed diggers while they were sick and purchased medicine for them. However, it is important to note that all costs incurred by the supporters are deducted when the digger finds a diamond.

Diggers sometimes belong to the host community where the diamond mine is situated, but often they do not. In Seguela, about 80 percent of the diggers were from other parts of Cote d'Ivoire or other countries in West Africa. The International Alert team also encountered large numbers of outsiders working the mines in Kono in Sierra Leone and Kindia in Guinea.

Diggers can be divided into three broad categories. Men from all of them are often found working together:

1. *Local men.* They often work part-time in the mines to earn cash during the dry season, but they stop in the wet season to plant crops. They are unlikely to go far afield in search of mine work

2. *Fortune seekers from all over West Africa*. They come from as far away as Niger and Mauritania to try and make their fortune in the 'casino economy'. However, most have simply travelled from elsewhere in the same country. These people are highly mobile. They will move overnight from one diamond mining area to another if they hear of a new diamond rush or they think the prospects are better elsewhere.

3. *Ex-combatants*. These men share similar characteristics to the fortune seekers, but they are potentially more violent and socially disruptive. In the Lofa river basin of Liberia, some former combat units of the LURD rebel movement stayed together after the civil war ended and turned from fighting to diamond mining. Diamond and gold mining offers unemployed ex-combatants a sense of prestige and a chance, however slim, of making a fortune in a way that farming or ordinary manual labour does not. In the absence of rehabilitation and training and the availability of other employment, diamond mining is a good way of preventing ex-combatants from turning to crime or mercenary activities in another country.

In the Kono district of Sierra Leone, the Peace Diamond Alliance (PDA), an initiative to help diamond miners funded by USAID, has tried to establish a basic minimum wage of 5000 Leones per day ($1.70) for miners who do not work on the tributer system.

The PDA has also tried to combine diggers with mine owners in cooperative societies, but this experiment, discussed at greater length in the section of this report entitled 'Empowering the mine owners' has not so far proved successful. The interests of the diggers and mine owners are too dissimilar for them to work together effectively as equal partners. Most diggers are highly mobile labourers with no capital of their own.

Problems arose in some PDA cooperatives when digger members were expected to do hard physical work, while their partners who had supplied the capital for a mining licence were not. Some of the PDA cooperatives ended up employing diggers to work for them.

In Sierra Leone and Guinea, the workers in industrial diamond mines belong to trade unions, but there has been very little unionisation of diamond miners in the artisanal sector.

3.1.2 Points for discussion

1. Improving cash earnings for the diggers
2. Agreeing minimum conditions of employment
3. Promoting trade union membership

The best way to improve the living conditions of diggers is to improve their income, particularly cash earnings.

The most obvious way to boost their incomes is to help mine owners increase the selling price of their diamonds. (Possible strategies for increasing the producer price of diamonds are discussed in the section of this report entitled 'Empowering the mine owners'). Diggers who work on the tributer system would then benefit by earning more money from their share of each stone found.

It should also be possible to establish agreed minimum conditions of employment under the tributer system. In each diamond producing area, mine owners, supporters, diggers, community representatives and government officials could be encouraged to negotiate a minimum set of working conditions that all sides would agree to enforce.

Such agreements could cover specific issues such as:

1. Working hours
2. Minimum daily food ration and cash allowance
3. A standard formula for sharing the value of each diamond between the mine owner and his diggers
4. Basic health and safety standards
5. Minimum standards for assisting diggers who fall ill

In Guinea, Sierra Leone and Liberia, mine owners have an association through which they can express their views and negotiate with the government.

However, there is no trade union that effectively represents the voice and the interests of diggers who work in artisanal mines.

The diggers are poor casual labourers of various nationalities who are highly mobile. They are therefore a difficult body of people to unionise. They can barely afford to pay any union membership dues.

No artisanal miner should be denied union membership or discriminated against on the grounds that he is not a citizen of the country where he works.

Thought should be given to the creation of a single diggers' union covering the whole of West Africa. This could be organised into autonomous national branches, each of which would be responsible for negotiating local labour agreements with other stakeholders in the industry.

A single, regionally-based trade union would make it easier for diggers in one country to move to another, while retaining the advantages of union membership. Diggers would simply transfer their membership from one national and district branch to another as they went along.

A regionally-based diggers' union would also, for the first time, give the labourers in the diamonds mines a voice of their own in international forums such as the Diamond Development Initiative, the Kimberley Process and labour law reform initiatives backed by the International Labour Organisation.

Unionisation has already taken place to a degree on a national level. In Sierra Leone, for example DFID supported the United Mineworkers Union, which has in excess of 2,000 members and tries to represent the collective interests of diamond diggers in that country. It remains to be seen whether this attempt at unionisation will bear fruit for the diggers.

3.2 Empowering the mine owners

3.2.1 Nominal bosses with little capital

The mine owners are often assumed to be the real bosses of the artisanal mining industry. However, all too often they are little more than front-men for the supporters; the diamond traders who finance their operations and demand, in exchange, the exclusive right to buy their stones.

The mine owners possess either a government mining licence or a de facto claim to mining rights on the land that they work, which is recognised by the local authorities. Typically, each licence covers an area of up to one hectare. Very few mine owners operate in a completely clandestine manner without paying someone for the right to extract diamonds from their ground.

The laws of Cote d'Ivoire, Liberia, Sierra Leone and Guinea stipulate that artisanal mining licences can only be issued to nationals. This automatically excludes many supporters of Lebanese or Maraka origin from owning a mine in their own name. They are therefore obliged to use a local front-man as the mine owner. They use him as an agent to supervise the mining operation and cut him in on their profits. Many mine owners are actually little more than mine managers.

Supporters often find it politically convenient to have a local man owning the mining licence, especially in countries such as Cote d'Ivoire and Sierra Leone where the local community leaders must endorse all licence applications before they are granted by the state.

Artisanal mining is a hit-and-miss business. A mine owner can work the gravel beds of an apparently promising area for six or even 12 months without finding a single diamond. Or he can strike lucky and find a pocketful of valuable stones in the first month. Mine owners can spread their risks by working several different plots simultaneously. If one of them fails to yield many diamonds, the chances are that at least one of the others will prove more productive.

However, very few mine owners have sufficient capital to work several claims at once. It is easier for the supporter to do this. By spreading his risk over 10 or 20 different mines, the supporter is virtually assured of making a profit on some of them.

However, the main problem limiting the earning power of mine owners is the difficulty they face in selling their diamonds at fair value.

Most rely on finance from a supporter. Unless they manage to covertly divert some of their diamond output into a different sales channel, they are obliged to sell all their stones to their supporter at the price that he dictates.

Even if a financially independent mine owner is free to sell his diamond to the highest bidder, he often ends up being cheated by local cartels of traders who agree not to outbid each other.

The diamond market is secretive. Price information does not circulate freely at the producer level and most mine owners do not know enough about the diamond market and diamond valuation to be able to assess the true value of the stones they offer for sale. Consequently they are often persuaded to sell their diamonds at a price that is less than fair.

3.2.2 Points for discussion

1. Training artisanal miners in mining techniques and diamond valuation
2. Creating new sources of finance for miners
3. Creating a competitive market for diamonds and promoting market transparency
4. Promoting the publication of market information
5. Encouraging mechanisation
6. Cooperatives as a solution

Very few diamond miners have any training in mining technology and very little geological information or advice is available to them. Their choice of claims is often haphazard and all too often they end up digging on unproductive land.

Equally, very few miners are able to judge the true quality of the diamonds they produce and assess their real value. As a result, they are often cheated by dealers.

Mine owners require training in diamond identification and valuation to help them achieve better prices. They also need basic training in mining techniques to help them pick better sites that are likely to be more productive.

Since its launch in 2002, the Peace Diamond Alliance in Sierra Leone has been involved in training miners in diamond identification techniques. It has trained 170 local miners in Kono District. PDA officials said that this training has helped the miners to negotiate better selling prices with their supporters and local dealers. However, they were unable to quantify the uplift in average diamond prices achieved as a result.

The government’s Gold and Diamond Department has deployed a diamond valuer in Kono district who is available to help local miners gauge the true value of their stones. Her services are offered free of charge, but so far she has not been widely consulted.

Governments and NGOs involved with the mining sector should be encouraged to provide appropriate training in mining technology and gem analysis to diamond miners throughout the sub-region.

Although diamonds are Sierra Leone’s largest export and mining is its second largest employer after agriculture, the country does not have a single technical college that provides basic training in geology and mining to prospective artisanal miners.

Donors and the governments of the Mano River Union should give serious thought to establishing a school of mines in Kono district - the sub-region’s main diamond producing area - dedicated to training artisanal gold and diamond miners from Sierra Leone, Liberia and Guinea.

Given the importance of artisanal mining to the economies of all three countries, separate training centres for artisanal miners should eventually also be established in Guinea and Liberia. Over time, these institutes should become self-sustaining, possibly supported by the international diamond trade, or its representative bodies, such as the World Diamond Council in New York, or the Hoge Raad voor Diamant in Belgium.

However skilled miners become in judging the true value of the diamonds they produce, it will be difficult for them to achieve a substantial uplift in selling prices unless they can sell their stones in a competitive and transparent market.

Introducing new sources of mining finance to compete with the supporter system would help to break the supporters' present stranglehold on producer prices.

However, alternative commercial funding is difficult to find. The banks have traditionally been averse to lending to artisanal miners because of the high risks involved. They are unlikely to provide funding unless loans are guaranteed by the government or a donor.

Cooperatives may not be the best vehicle for financing artisanal miners, as we shall see later.

Small private companies grouping several miners in a larger operation that enables them to share heavy machinery and spread risk may be a more appropriate way of attracting new sources of investment.

For example, besides financing an unsuccessful cooperative in 2005, Joe James, a diamond dealer based in South Carolina also invested $50,000 in a small mining company in Kono district. He advanced this sum on the understanding that the loan would be repaid within three years with a 15 percent bonus added to the original capital.

James invested this money in the Mea Development Company, which is led by Alpha Kpetewama, a US-trained economist who is also chairman of the PDA executive steering committee for Kono district. Together, the members of this limited company own 20 mining claims. Each member retains individual ownership of his claim. The company commissioned a geological survey of its land before it began digging and used some of its capital to buy a four-wheel drive vehicle and a variety of mining equipment. It began mining operations on two fully licensed plots in January 2006 using a team of 30 diggers hired on a tributer basis. The diggers will share 25 percent of the value of each diamond found, the claim owner will receive 25 percent and the remainder will be retained by the company to cover expenses, repay debt and, eventually, to pay dividends.

It is still too early to judge how successful the Mea Development Company will be. However, well-managed private companies owned by groups of small businessmen may be able to attract finance from new sources of capital more easily than cooperatives. They may also be able to use the money more effectively.

Banks might be more willing to lend to professionally-run mining companies with a good spread of mining land than to individuals or cooperatives. Such small companies might also find it easier to attract risk capital from investors seeking a cash return on their investment rather than preference rights to buy their diamonds.

Creating a more transparent and competitive market for diamonds will be challenging, but deserves encouragement.

Ghana has managed to achieve price transparency at the export level through its gold and diamond bourse in Accra and there are plans afoot to set up a similar precious minerals exchange in Sierra Leone.

The Ghanaian bourse is run by the parastatal Precious Minerals Marketing Company (PMMC). All gold and diamonds exported from Ghana must be sold through it. The bourse allows licensed Ghanaian traders to sell freely to registered overseas buyers at its premises in Accra.

The bourse operates its own payments clearing system. This makes all sale transactions transparent and channels them through the banking system.

Gold and diamond exporters place money in a special account with the PMMC. This is drawn on to pay the seller whenever a transaction is completed. The seller receives a cheque issued by the PMMC for a sum identical to that recorded on the sale note. The details of each sale transaction are recorded by the exchange and are made public.

The PMMC also collects a two percent export tax on all diamond sales for the government and issues the Kimberley Certificates that enable the stones to be shipped overseas.

Similar gold and diamond exchanges could be established in other West African countries. Daily price information from the bourse and from world markets could be broadcast nationwide in a radio bulletin every night and published in local newspapers. This would give miners a much better idea of the prices they should aspire to at the producer level.

However, the creation of a national precious minerals exchange would not solve the problem of lack of price transparency at the producer level.

What is needed is for at least one trader in each major diamond producing area to publish his buying prices for different categories of rough diamonds in order to establish a base, or even a floor price for that local market.

It is difficult to envisage any existing players in the market volunteering to do this. However, the introduction of a powerful outsider might achieve this.

The government could license a large international diamond trading firm to open a buying agency to purchase diamonds directly from the producer in the diamond mining zone. In return, the international company would agree to apply fair valuation guidelines in its pricing policy and publish within 24 hours the details of all transactions made.

This would introduce a measure of competition and transparency into the local intermediary market, which would force all local traders to operate on tighter margins to the benefit of the producer.

Market information at the local, national and international level should be made more widely accessible to miners in a form they can understand and assimilate easily. The best way of communicating such information in timely fashion to a mass audience is by radio or SMS on mobile phones.

Donors should consider assisting diamond producing countries to create and broadcast specialist radio news bulletins aimed at miners containing relevant price information, as well as longer programmes of educational value. Such programmes would help miners to improve their mining techniques, improve health and safety and minimise environmental damage in their mining operations.

Artisanal miners could achieve higher levels of productivity and profitability by adopting a certain degree of mechanisation. However, this would require capital investment and economies of scale.

An individual miner might not be able to use a bulldozer effectively to remove several metres of overburden on his own claim, but if he hired one jointly with other miners needing to clear the topsoil from adjacent plots, it could prove worth their while to hire one for a day or two.

Such equipment would also allow the owners of artisanal mines to dig deeper and work more efficiently. It would also allow them to compete more effectively with a new generation of small, mechanised mining companies that are now starting to appear, especially in Sierra Leone.

Table 3: Estimated impact of diamond mining on the economies of Cote d'Ivoire, Liberia, Guinea and Sierra Leone

	Cote d'Ivoire	Liberia	Guinea	Sierra Leone
Employment in diamond mining	6,000 – 30,000	1,000 – 50,000	100,000 – 250,000	100.000 – 250,000
IA best guess	10,000	40,000	200,000	150,000
Export income from diamonds ($US)	25-30 million	1-15 million	60-200 million	150-400 million
IA best guess	25 million	10 million	150 million	200 million
Annual tax yield (US$)	nil	nil	3 million	7-8 million
UN sanctions	Dec 05-present	2001-present	-	2000-Jul 2003
Population	16 million	3 million	8 million	6 million
GNI per capita	$660	$110	$460	$200
Main exports	cocoa oil coffee	timber rubber diamonds	bauxite gold diamonds	diamonds titanium ore (rutile) cocoa

This table expresses the full range of estimates of employment and production from written and oral sources consulted by International Alert in the course of its research. The variations are huge.

The International Alert 'best guess' represents an attempt to put the real dimensions of the diamond industry in each country into sharper focus. However, these figures should be treated with caution as approximate and indicative estimates, not as reliable data.

3.2.3 Cooperatives as a solution

The history of cooperatives in the diamond sector has so far proved unsuccessful in both Liberia and Sierra Leone. This is partly because of the way these cooperatives were organised.

Several mining cooperatives were formed in Liberia's Nimba county during the early 1990s. The Liberian cooperatives consisted exclusively of mine owners and excluded diggers. All cooperatives eventually collapsed during the civil war, but even before this, many of them struggled and then foundered as a result of other problems.

The first of these was that of financing. Each cooperative employed a business manager who was responsible for providing most of the group's working capital. In most cases, these business managers were supporters who used their money to fund the mining activities of other members of the cooperative. In some instances, the cooperatives ran out of money. In others, money went missing as a result of mismanagement and embezzlement.

However, the Liberian cooperatives also ran into problems with their marketing strategy. Miners would sell their diamonds to the business manager for a mutually agreed price. When the business manager had accumulated a sufficient parcel of stones, he would go to Monrovia to negotiate their sale to an exporter for a higher price. Part of the profit realised was retained to finance the running costs of the cooperative. The remainder was divided equally between its members. The problem was that members of the cooperative who were more successful because the diamonds were found on their plots eventually realised that they had to share their profits with other members of the group who were producing virtually no stones from their own mines. As a result, productive and successful miners would often withdraw from the cooperative and revert to sole trader status. The remaining members of the group would then suffer a cash crisis.

More recently, the Peace Diamond Alliance has tried to establish miners' cooperatives in Sierra Leone. It has organised about 50 cooperatives in Kono district since the beginning of 2005. However, only five of them became operational and all of these collapsed within a matter of months.

The PDA arranged for these five cooperatives to be financed by two supporters based in the United States; Martin Rapaport, who owns a global diamond trading company based in New York, and Tel Aviv and Joe James. Rapaport invested US$40,000 into four of the cooperatives, with the undertaking that he would buy their diamonds directly at a fair price, eliminating the middleman. The PDA obtained a special dispensation from the government of Sierra Leone that allowed the cooperatives to export their stones directly to Rapaport without paying the normal $40,000 fee for an exporter's licence. However, the four cooperatives only produced $3,000 worth of stones before they ran out of money and were forced to suspend operations. James invested about $10,000 in the fifth cooperative, which suffered a similar fate.

The experiment failed because the supported cooperatives were too small and were poorly chosen. Each group owned only one or two mining licences. If the US diamond dealers had invested more money in a larger group of mine owners working between 10 and 15 different claims, the miners would probably have achieved a higher level of diamond production and the investors would have received a profitable return on their money. Partnering miner owners and diggers, who have dissimilar interests, in the same cooperative also contributed to the failure of the Kono experiment.

The PDA is currently trying to identify new sources of capital to finance a second attempt at funding cooperatives in Kono.

Any future initiatives to set-up cooperatives as a way of ensuring that miners and diggers benefit more from the diamonds they produce must ensure that;

1. There is a well-defined structure with clear roles and responsibilities of its members and that groups of dissimilar interest are not partnered together
2. A sustainability component is inbuilt prior to setting up the cooperatives
3. The cooperatives have enough licences to spread their risks
4. The cooperatives have access to geological surveys and are trained in mining techniques and diamond valuation
5. The projects are located in areas where people have expressed an interest and are willing to take up ownership.

The mining community of Bobi, Cote d’Ivoire

3.3 Cash and control for the mining communities

It has long been recognised that the communities that host diamond mining activities deserve special assistance. This is because they generate a disproportionately large share of national wealth, yet they bear the cost of social disruption and environmental degradation that mining brings.

Strategies exist for enabling mining communities to receive part of the state’s revenue from diamond mining in Cote d’Ivoire, Sierra Leone and Guinea, but government thinking on this matter is still at a formative stage in Liberia.

Besides revenue, local communities also require a degree of control over the mining activities that affect them.

This need has been recognised in Cote d’Ivoire and Sierra Leone. However, in Liberia and Guinea, the concession of mining licences is still the exclusive preserve of central government.

Encouraging local communities to participate in consultations with mining companies empowers them, as it allows their voice to be heard as to how mining is conducted on their territory. It also has benefits with regard to maintaining law and order. Democratically accountable village leaders are unlikely to tolerate the presence of unlicensed miners on community land if this means they lose revenue that could be used for development purposes, such as building a new school or acquiring a new water pump.

3.3.1 Raising revenue

There are two main ways in which local communities can derive revenue from mining activities on their land:

1. Retaining a percentage of the money raised from each mining licence issued
2. Sharing in the revenue generated from diamond sales.

One advantage of raising revenue from the issue of licences is that the money can be collected at the source. It is immediately available to the community. There is no risk that funds will be held back for several months by central government or that they will disappear as a result of maladministration or embezzlement.

This is a major consideration in countries with a history of poor governance.

In Liberia, the Superintendent (chief government administrator) of Nimba county told International Alert that he had not received a single cent of funding from central government in Monrovia during the 29 months that he had been in the post.

In Sierra Leone, 50 percent of the nominal cost of a mining licence consists of a surface rent payment that goes direct to the local chiefdom. The surface rent is presently fixed at 50,000 Leones (USS$17).

A series of ancillary costs raise the actual cost of taking out an artisanal mining licence to more than US$300.

In the Seguela district of Cote d'Ivoire the mining licence fee is paid entirely to the village councils known as GVCs, but it is very low – US$6 per hectare per year. The GVCs derive most of their revenue from a local tax on diamond production.

One advantage of having a low licence fee is that it makes artisanal mining more accessible to local people of modest means. If they find it easy to mine legally they are less likely to do so clandestinely. Another advantage of raising revenue through the sale of licences is that it ensures income to the local community irrespective of diamonds being found on plots within the community.

There are two advantages to generating revenue from diamond sales.

Firstly the amount of money that can potentially be realised is much higher. Secondly, if local communities are able to collect a reasonable percentage of revenue from diamonds mined legally on their land, community leaders will be more inclined to cooperate with government in its fight against smuggling and tax evasion.

The 24 GVCs established in the Seguela district of Cote d'Ivoire collect a 12 percent community tax on all diamonds produced at the point of first sale.

This tax is based on a much lower valuation of the diamonds than would normally be calculated at the point of export. However, the fact the GVCs collect the tax directly guarantees that they receive the money.

The diamond fields of Seguela are controlled by the rebel New Forces movement. If the GVCs had to rely on central government collecting the diamond sales tax and remitting it to them, the district would have received nothing for the past three years.

The total tax payable by diamond miners in Seguela is 20 percent. This is very high for a tax on artisanal diamonds by African standards and inevitably creates strong incentives for tax evasion and smuggling.

However, experience in Sierra Leone shows that a very low rate of taxation levied on the value of rough diamonds at the point of export can successfully generate considerable revenue for mining communities.

Sierra Leone levies a three percent export tax on diamonds. A quarter of the proceeds from this tax – equivalent to 0.75 percent of the assessed value of the diamonds – is paid into the Diamond Area Community Development Fund.

This fund makes payments every six months to the Chiefdom Development Committees of about 30 chiefdoms where diamond mining takes place to fund local development activities.

The payment due to each chiefdom is calculated on the basis of the number of mining licences issued within its jurisdiction and the number of large stones of exceptional value (over 50 carats) produced by its mines. According to the Ministry of Mineral Resources, most of the chiefdoms which host diamond mines receive between US$40,000 and $67,000 a year from this tax.

However, the operation of the Diamond Area Community Development Fund has not been free of problems. The government suspended payments to most chiefdoms in 2004 because of concerns that the money was not being used for appropriate projects. In some cases the money was said simply to have been pocketed by the paramount chief, who regarded the cheque as his reward for pulling out the votes for the ruling party at election time.

After a suspension that lasted a year, payments were restored following tighter controls being put in place. By late 2005 most chiefdoms had received the full payments earmarked for them.

In Guinea, mining communities do not receive any payback from artisanal mining, but they do from industrial scale diamond mining.

AREDOR, the country's only industrial diamond producer, pays a mining tax of 10 percent to central government in addition to the standard three percent export tax on all diamonds produced. The authorities in Conakry remit a tenth of the mining tax, equivalent to one percent of AREDOR's annual sales, to the prefecture of Kerouane, where the company's mine is located. This money is earmarked for spending on local development projects.

3.3.2 Control of local spending

In Cote d'Ivoire, the GVC management committee appointed to award mining licences, monitor mining activities and collect mining revenues in each village is independent of the council of elders headed by the chief.

This model may deserve to be emulated elsewhere in the region because it reduces the chances of embezzlement or diversion of funds.

In Sierra Leone, the spending of revenue from the Diamond Area Community Development Fund is controlled Community Development Committee in each chiefdom. This consists of at least five members, representing a broad cross-section of the local community. The committee is chaired by the local paramount chief, a respected and an influential figure.

Often, however, the paramount chief controls the bank account. Many problems with the Diamond Area Community Development Fund were caused by paramount chiefs diverting cash away from agreed spending priorities into other projects.

International Alert was unable to obtain information about the cash contributed by AREDOR to Kerouane prefecture in Guinea, or what it was spent on. However, AREDOR's mine was closed throughout 2005, so the local community did not receive any income that year.

3.3.3 Points for discussion

1. Securing a revenue flow from both licence fees and diamond production
2. Establishing spending priorities and monitoring results
3. Giving local communities a say in mining on their own land
4. Enforcement of regulations in return for cash income

Ideally, every rural community where diamond mining takes place should derive revenue from the issue of licences and the sale of diamonds produced on its land.

Governments in West Africa should consider emulating Sierra Leone's example of allowing local communities to collect and retain a substantial proportion of the annual mining licence fee.

This simple procedure ensures that some revenue from mining flows directly to the community.

Experience shows that a high tax on artisanal diamonds encourages tax evasion and smuggling. It therefore seems preferable to levy a low tax on diamond exports in the capital and remit this money to the mining community than to allow the mining community to levy a high percentage tax on the agreed price of the diamonds at the point of first sale.

Governments in West Africa should consider emulating Sierra Leone's example of reserving part of the three percent export tax for spending by the mining communities on development projects of their choice.

In countries with weak governance, NGOs and donors may have to monitor the process to ensure that funds set aside for the mining communities are remitted to them regularly and in full.

The problems encountered with the spending of diamond revenues by Chiefdom Development Committees in Sierra Leone show that it is imperative for clear guidelines on spending priorities to be established and enforced.

Such guidelines should be discussed and agreed with the mining communities in advance so that their own priorities as well as those of central government are taken into account.

The Sierra Leone experience suggests that it is also desirable to entrust the selection and execution of development projects funded by diamond revenues to an elected local authority that is independent from the traditional chief and his council of elders.

Given the destruction of river valleys and farmland due to mining activities, environmental remediation should be added to the communities' traditional priorities of education, health and the provision of safe drinking water.

Guinea levies a special 500,000 Guinean franc (US$110) charge on artisanal mining licences to cover the cost of environmental remediation. This amounts to one third of the total cost of the annual licence.

Governments throughout West Africa should consider levying a specific charge on artisanal miners to cover the cost of environmental remediation. Furthermore, they should consider entrusting local communities with the responsibility of using the money to clean up the land.

In Cote d'Ivoire and Sierra Leone, local communities already have a say in deciding who gets to mine on their land. In Liberia and Guinea they do not.

All governments in West Africa should allow local communities to participate in the allocation of mining licences on land within their jurisdiction. This will generally result in local people being granted artisanal mining licences in preference to outsiders vying for the same land. It will also encourage community leaders to assist the government in clamping down on illegal mining.

While local communities have a right to a share in the income generated by diamond mining on their land, they also have a responsibility to help ensure that mining activities are conducted legally and in a responsible manner.

It is worth considering what duties should be imposed on local communities to enforce good practice in artisanal mining in return for the income they receive from it.

Such duties could include the following:

1. Enforcing agreed minimum standards for the treatment of diggers
2. Preventing exploitative child labour
3. Preventing the operation of unauthorised mines
4. Enforcing environmental standards and ensuring the land is duly remediated once mining operations cease

3.4 Central government – revenue and regulation

3.4.1 Development revenue from diamonds

Sierra Leonean experience has shown that even with a diamond tax of three percent, it is possible to cover the cost of expert valuation and enhanced regulation that the Kimberley Process demands and to return reasonable and meaningful revenues to the diamond mining communities.

The critical fiscal issue is that there appears to be little possibility of taxing artisanal diamonds any further to help finance the government budget. West African governments should therefore follow the example of Cote d'Ivoire in regarding artisanal diamond mining as an issue that concerns security, employment and local development.

In Liberia, Sierra Leone and Guinea, artisanal diamond mining plays a vital role in creating employment, boosting rural incomes and generating foreign exchange to pay for imports.

These are important contributions to the economy. But it is unrealistic to expect artisanal mining to become a major source of income for the government in any of these countries.

Sierra Leone, the region's largest diamond producer, received export taxes of US$4.1 million from diamond exports in 2005.

Extrapolating from 2004 figures, the government in Freetown probably received a further $3 million from the sale of licences to miners, dealers and exporters. This means the industry contributed about $8 million to the government's pool of resources.

Of this over $1 million was automatically set aside for Diamond Area Community Development Fund and a further $1 million was earmarked to pay for operations of the Gold and Diamond Department, which values diamonds and issues the country's Kimberley Process certificates. This leaves $6 million for the country's general budget.

The key to raising larger state revenues from diamond mining is to promote Kimberlite industrial production.

Large capital-intensive mines that produce dozens of diamonds per day are more productive than small pits with 20 men that may turn up only two or three stones per month. They are also easier to control and monitor.

Mining companies could professionalise the industry and establish better record-keeping through proper accounts, making it easier to document the output and tax incomes. The state can even share in profits by taking an equity stake in the mining company

In Guinea, the government levies a 13 percent tax on diamonds produced by AREDOR, the country's only industrial producer. It also owns a 15 percent stake in the company. This was acquired without the state having to invest any money in the project and was part of the terms of the contract that granted AREDOR its long-term mining concession.

In Sierra Leone, Koidu Holdings, the country's only Kimberlite mining company, also pays a higher rate of tax on its diamond output than the country's artisanal producers and the state owns a 20 percent shareholding in the company.

Botswana made its money from diamonds by taxing large industrial producers and acquiring shares in them, not by taxing artisanal miners. That could also be the way forward for West Africa.

The best way for West African governments to maximise their revenue from diamond mining is to encourage the entry of more industrial producers.

This is practical in the context of Kimberlite mines, which can be ring-fenced. The scale of operations is fundamentally different from the capacity of artisanal miners, and therefore there is no competition between the two sectors (that said, Koidu Holdings has been engaged in a long-running dispute with squatters who have built houses on part of its concession area in Kono district).

However, conflict often develops when large mechanised mining companies start competing for alluvial sites with local artisanal miners.

AREDOR has already been forced to yield part of its concession in Guinea to artisanal miners as a result of such conflict.

Disputes are also starting to develop between artisanal diamond miners and industrial mining companies in Sierra Leone.

3.4.2 Communities, companies and conflicts

Several foreign companies are prospecting for alluvial diamonds in Sierra Leone and at least two are planning to start commercial production shortly.

This has generated a conflict in Nimiyama chiefdom of Kono district.

In 2005, an Israeli company called Milestone announced plans to take out mining licences over 1,000 acres (400 hectares) of land in Nimiyama chiefdom. Local residents found that the Ministry of Mineral Resources was no longer willing to renew about 200 licences and mining claims they already held in this area.

Appeals to the 90 year-old local paramount chief did not produce any result. His deputy, the chiefdom speaker, supported Milestone. Around the same time, he acquired a new car.

Milestone's employees arrived in the chiefdom to try to demarcate the company's new concession on several occasions in July and August 2005, but each time they were intercepted and chased away by activists from the chiefdom's youth council. This organisation opposed the arrival of Milestone, arguing that it would deprive several hundred local men of livelihood.

Further confrontation between Milestone staff and local youths occurred in January 2006. Several local politicians then intervened, claiming that President Ahmad Tejan Kabbah personally supported the Milestone project.

A few days later, SLDC, a UK-listed mining company appeared on the scene, seeking mining rights on the same land claimed by Milestone. Soon afterwards, the speaker of the chiefdom and three district councillors began supporting SLDC. At about the same time, speaker acquired a new four-wheel-drive vehicle and the councillors each acquired a new motorbike.

The dispute smoulders on. At the end of February 2006, the youths were growing increasingly frustrated that no authority was listening to their arguments or responding positively to their concerns. In addition, government policy does little to reduce tension by allowing companies to take large exploration licences and then not monitor their usage, while in parallel allowing artisanal diggers to mine on the land within those licences.

As the experience of oil companies in the Niger Delta shows, if nothing is done to defuse the situation, it could degenerate into violence. More disputes are likely as mining companies try to acquire the best plots of land in Sierra Leone’s diamond producing areas.

Similar conflicts may also develop in Guinea and Liberia as foreign investors and even locally-owned mining firms start to make inroads on the artisanal miners’ traditional domain.

Governments, companies, INGOs and the UN must ensure that conflict sensitivity is a key component in their work if potential conflicts are to be avoided and lessons learned.

There are four key principles guiding a conflict-sensitive approach:

1. *Participatory analysis*. A richer analysis of context, including any existing or potential conflict. Participatory analysis is a key ingredient of the overall assessment process.

2. *Good communication.* Avoidance of challenging issues allows things to ferment and appear in aggravated scenarios at later stage. An improved communication process is a key component of the methodology of conflict sensitivity.

3. *Strong local relationships.* Stakeholders have a legitimate interest in the significant changes that a major investment or projects will make to their livelihoods and landscape. Open and transparent discussion and revision of a project in the light of stakeholder concerns accords value to the perspectives of others. An inclusive approach can make a project more palatable to stakeholders and also builds local capacity.

4. *Shared decision-making*. This invites transparency and trust, fosters legitimacy and relieves tensions.

3.4.3 Points for discussion

1. How to tax artisanal miners
2. How to encourage mechanisation at the artisanal level
3. How to manage the conflict that inevitably arises between artisanal mining communities and mining companies seeking to exploit their land

3.5 The global and regional dimension

3.5.1 Tax harmonisation

There has been a welcome move in the three Mano River Union countries towards a harmonized diamond export tax of three percent.

Liberia and Sierra Leone have passed laws that allow them to levy additional mining taxes on artisanal producers. However, if these taxes of up to 10 percent were activated, the benefits of tax harmonisation would be lost.

The present low tax environment in West Africa, which encourages diamonds to be traded legally and transparently, would also be badly upset by such a move.

The Ministry of Mineral Resources in Liberia has expressed concern that a three percent export tax on diamonds would not raise sufficient revenue for it to pay the estimated US$500,000 annual cost of implementing the Kimberley Process, let alone return a proportion of tax revenue to the country's diamond mining communities.

A three percent tax on official diamond exports of $15 million a year would yield only $450,000.

West African governments cannot reasonably be asked to spend more on controlling diamond mining in their country than what they can raise through taxes.

The United States has pledged aid to fund the launch of the Kimberley Process in Liberia and if government estimates are accurate, then the country will open its first Kimberlite mine within four years, which would mean that any shortfall would be a transient problem.

Governments in West Africa might also consider harmonising the way they structure and issue artisanal mining licences so as to ensure that local communities receive part of the licence fee.

Such harmonisation could also ensure that adequate provision is made for land remediation once mining operations cease.

There is less need for the cost of artisanal mining licences to be standardised. However, governments should consider ensuring that the following principles are respected in the way all permits are issued:

1. The procedures for application and approval must be simple, straightforward and transparent so as to avoid suspicions of corruption or favouritism
2. The price must not be so high that artisanal licences become inaccessible to local residents who might then be encouraged to mine clandestinely
3. Elected representatives of the local community should have a meaningful role in the vetting and approval of applicants

Unless governments in West Africa harmonise their policies towards artisanal diamond mining, particularly their taxation policies, large-scale smuggling will inevitably continue, as will the insecurity that comes with it.

3.5.2 Sanctions and the Kimberley Process

The field research conducted by International Alert shown that UN sanctions on diamond exports by Liberia and Cote d'Ivoire have failed to stop diamond mining and exports by these two countries.

The Ivorian government ban on diamond exports has not worked, as the authorities in Abidjan do not control any of the country's diamond-producing areas. Diamond mining in the rebel-held north continues at about the same level as before the country descended into civil war.

The government ban on diamond mining in Liberia has resulted in a small drop in production and the closure of one or two high-profile mines. However, clandestine mining remains widespread and large volumes of diamonds are still traded in the capital, Monrovia.

Cote d'Ivoire and Liberia are together continuing to produce and export diamonds worth somewhere between US$25 million and $40 million per year.

Many of these find their way into Sierra Leone and Guinea, where they are reclassified as locally produced stones, thereby undermining the Kimberley Process.

Attempts by the international community to shut down diamond mining in Cote d'Ivoire and Liberia have failed. The UN sanctions may have sent a sharp political message to political actors in the region, but they have increased the volume of smuggled diamonds flowing out of West Africa, undermining legitimate trade in Guinea and Sierra Leone.

UN sanctions on Liberian diamonds may soon be lifted following the consolidation of peace in the country and the election of a new government.

However, there is little sign of an early end to the military stand-off in Cote d'Ivoire and the international community has so far been unable to persuade the New Forces rebel movement to shut down its diamond mines.

Practical measures should be considered to legitimise the sale of diamonds produced in territory administered by the New Forces in order to prevent their clandestine sale from undermining attempts to make the Kimberley Process work effectively in other West African countries.

The Kimberley Process has helped to ensure that a higher percentage of the diamonds produced by Guinea and Sierra Leone are marketed through legal channels.

However, it has not managed to ensure that each diamond certified can be reliably traced back to its mine of origin. As a result, large volumes of smuggled and clandestinely produced diamonds are laundered into the Kimberley Process in these two countries.

The origin of an imported diamond can easily be attributed to a local licensed mine, since there is little in the way of reliable documentation at the producer level to enable such false claims to be checked and exposed.

One of the best ways for diamond producing countries to add value to their rough stones is by establishing workshops where they can be cut and polished into finished gems. Guinea has already established one such workshop. Sierra Leone (which once had its own cutting and polishing business) and Liberia are keen to follow suit.

However, if these countries were to develop such centres, it would raise an important issue within the structure of the Kimberley Process. The KPCS covers only rough diamonds and it is meant to ensure that rough diamonds that fuel conflict, and which are in violation of international sanctions should not enter legitimate markets. As these West African countries have recently emerged from conflict and remain fragile, if they were to develop such an industry, it would take diamonds out of the KPCS and that could facilitate unrestricted flow of funds to warring parties.

The international community therefore should consider reforming the Kimberley Process to enable it to account for rough stones that are cut and polished in their country of origin.

3.5.3 Labour issues

Artisanal diamond mining in West Africa employs up to 500,000 people - diggers, mine-owners, financial supporters and traders - who move constantly from one country to another.

Any attempt by individual governments to exclude non-nationals from participating in the local diamond-mining industry would disrupt the legal production and marketing of diamonds in that country.

West African governments have the right to monitor and control the activities of foreigners resident in their diamond producing areas with a view to maintaining security and ensuring that local people are not excluded from employment opportunities by an influx of people from other countries. The movement of former combatants across borders in the region is a particularly sensitive issue.

However, all of the region's commercial diamond producers are members of the Economic Community of West African States (ECOWAS). Their governments should embrace the principles of regional integration enshrined in ECOWAS to pursue liberal employment policies concerning in the artisanal sector of the diamond industry.

3.5.4 Points for discussion

1. How should the taxation of diamonds be harmonised and at what level?
2. What practical steps can be taken to prevent smuggled diamonds from Cote d'Ivoire and Liberia from undermining the Kimberley Process in other West African countries?
3. Should action be taken to create a legitimate market for diamonds mined in the rebel-held zone of Cote d'Ivoire?
4. Are measures required to identify and monitor foreigners working in the artisanal diamond mining sector in each country?
5. Should the Kimberley Process by modified to allow it to account for rough diamonds that are cut and polished in their country of origin?
6. How is it possible to ensure Kimberley Process is not used for money laundering?

The level of tax that can be reasonably levied on diamond exports should be discussed and agreed upon by all diamond producing countries in West Africa so that a harmonised tax rate can be applied, in order to minimise smuggling and maximise transparency.

Experience suggests that a uniform tax rate of two to four percent is the maximum that can be realistically be levied without driving a large proportion of artisanal diamonds into clandestine trade circuits.

Liberia is likely to be admitted to the Kimberley Process within a matter of months, so it may not be useful to put in place transitional arrangements for legitimising the country's current illicit diamond output.

However, it may be worthwhile to devise a transitional regime for Cote d'Ivoire until such time as the country is reunified and the political crisis there comes to an end.

The following alternatives should be discussed:

1. **UN diamond sanctions against Cote d'Ivoire should be allowed to lapse** in the light of international recognition that diamond exports from the rebel-held area of the country are not a factor fuelling the country's domestic conflict. That would open the way for diamonds produced in the rebel zone to be exported legitimately via Abidjan. This might seem strange to some observers of the Ivorian situation, but cotton and cashew nuts grown in the rebel area already cross the Zone of Confidence to be sold legitimately in the government-controlled south.

2. **A diamond buying agency could be established in New Forces territory to buy locally produced diamonds at a fair price for local currency and hold them in an escrow account until such time as sanctions are lifted.** The diamonds purchased could then be sold legally in the international market. The foreign exchange proceeds realised, minus the expenses incurred by the buying agency, would then be credited as reserves available to the Ivorian government. Such an arrangement would

probably have to be financed by donors and executed by a neutral agency acceptable to both sides in the conflict.

Concerns over the cross-border movement of ex-combatants could be addressed by closer cooperation between the government security agencies and UN peacekeeping forces in the region.

3.6 Diamonds and gold

International Alert was asked to investigate and describe the current state of diamond production in Cote d'Ivoire, Liberia, Sierra Leone and Guinea and to suggest ways in which diamonds could be used for development.

However, during the course of our research it became evident that artisanal gold mining was widespread in these four countries and that gold mining shared many of the characteristics of diamond mining in the sub-region.

Gold and diamond mining both use the tributer labour system and the supporter-based finance system. Often the same diggers, supporters and traders are involved in both.

Most of West Africa's artisanal gold production is sold through unofficial channels. This deprives governments of potential foreign exchange income and tax revenue. It also allows individuals and organisations to use the income generated by gold to finance conflict and other sinister ends.

Rebel forces removed about 50 kg of gold from the Ity gold mine in Cote d'Ivoire in 2002 and fought bitterly but unsuccessfully to retain control of the facility, which is now in government hands.

'Uncontrolled gold' has attracted much less government attention and international concern than 'conflict diamonds', but it poses similar problems that require similar solutions.

The International Alert team concluded that many of the initiatives undertaken to make artisanal diamond mining an instrument of development rather than conflict in West Africa could usefully be applied to gold mining as well.

Artisanal gold output has not been accurately captured by official data and its volume is difficult to estimate with any degree of certainty.

However, **Guinea and Cote d'Ivoire both derive more value from gold than diamonds.** Only Sierra Leone produces far more diamonds than gold and employs many more people digging for diamonds than it does panning for gold.

Official gold production in Guinea was worth US$184 million in 2005. However, this figure includes only a fraction of the gold produced by the country's estimated 300,000 artisanal gold miners, most of which was smuggled to Mali.

The output of Cote d'Ivoire's only industrial gold mine was worth nearly $32 million at current world prices in 2005. However, there are more than 100 artisanal gold mines in the country, many of them in rebel territory. Estimates based on the amount of gold traded informally in Abidjan suggest that the output of Cote d'Ivoire's artisanal gold mines is between $6 million and $21 million per year.

International Alert was unable to obtain any estimate for Liberia's gold output, but diamond traders and government officials reckoned that about 50,000 people were involved in artisanal gold mining in the country and that more people were mining for gold than for diamonds in the country.

Only in Sierra Leone is the scale of diamond mining indisputably larger than that of gold. There are estimated to be anywhere from 1,000 to several thousand people mining for gold in the north of the country, most of whom are women.

All told, there are upwards of 350,000 people mining for gold in the sub-region. Most of the ideas put forward in this report for benefiting West Africa's diamond mining communities could help them as well.

It would be useful to undertake a separate study of artisanal gold mining in West Africa. This should also look at the situation in Ghana, Mali and Burkina Faso, which are also important gold producers.

Such a report would describe more accurately the scale of artisanal gold mining in West Africa and identify appropriate strategies to improve the lives of gold miners and gold mining communities. It could also suggest ways of channelling more artisanal gold into legal and transparent trade.

Annex 1: Diamond mining areas in the Mano River Union and Cote D'Ivoire

Annex 2: International Alert field mission itinerary

11 February – 7 March 2006

RP = Robert Powell
MY = Mohamed Yahya

Feb 11 - Arrival in Abidjan Cote d'Ivoire (RP)
Feb 12 - Abidjan (RP)
Feb 13 - Arrival in Abidjan (MY)
Feb 14 - Abidjan-Bouake
Feb 15 - Bouake
Feb 16 - Bouake-Seguela-Bouake
Feb 17 - Bouake-Abidjan
Feb 18 - Abidjan
Feb 19 - Abidjan-Monrovia
Feb 20 - Monrovia
Feb 21 - Monrovia
Feb 22 - Monrovia-Lofa Bridge-Sinje-Monrovia
Feb 23 - Monrovia Wesua-Monrovia (MY), Monrovia-Bahn-Ganta (RP)
Feb 24 - Ganta-Sanniquellie, Gbapa-Monrovia (RP), Monrovia (MY)
Feb 25 - Monrovia
Feb 26 - Monrovia-Freetown
Feb 27 - Freetown
Feb 28 - Freetown
Mar 1 - Freetown-Kono
Mar 2 - Kono-Freetown
Mar 3 - Freetown-Conakry
Mar 4 - Conakry
Mar 5 - Conakry-Kindia-Conakry
Mar 6 - Conakry (RP, Departure from Conakry (MY)
Mar 7 - Departure from Conakry (RP)

Annex 3: Further reading and web links

World Diamond Council	www.worlddiamondcouncil.com
International Alert	www.international-alert.org
Kimberley Process	www.kimberleyprocess.com
Partnership Africa Canada	www.pacweb.org
Global Witness	www.globalwitness.org
Network Movement for Justice and Development	www.nmjd.org
Extractive Industries Transparency Initiative	www.eitransparency.org
Precious Minerals Marketing Company, Ghana	www.pmmcghana.com