Sierra Leone Diamond Policy Study

January 2002

Contents

Executive Summary

1. In Sierra Leone there has been a long history of diamond mining, which was once the mainstay of the economy. However from the late 1970s onwards the diamond trade became increasingly dysfunctional and dominated by corrupt practice and poor policy. By the 1990s, the diamond industry had not only ceased to serve the needs of the country but had become a motor for its destabilisation and collapse into civil war.

2. Despite the greater part of the easily exploited diamond resources having been worked out, there still remain significant reserves, particularly in the known kimberlite deposits at Tongo and Kono. Together with an estimate of the likely level of production from the remaining alluvial resources, Sierra Leone's diamond output could rise within 4-5 years to between 750,000 and 1 million carats per year. It is thus possible that the value of diamond exports will rise from around $50 million in 2002 to as much as $180 million by 2006. The contribution of the artisan sector to this total is likely to be in the $40-80 million range.

3. To achieve this level of production, capital investments of the order of $140-200 million dollars will be required, almost entirely from sources external to Sierra Leone. An estimated $5-15 million dollars of this total will be required by the informal sector. Direct government revenue from the diamond industry can be anticipated to increase from rather less than $1 million in the present FY to over $7 million in 4-5 years' time should the kimberlite mines be developed and formal-sector exploration resume. Once the capital investments in the kimberlite projects has been paid back, direct and indirect revenues from the diamond industry could reach as high as $50 million per year. For comparison, it may be noted that non-donor government revenue in the present FY is budgeted at $84 million. The diamond industry, if properly regulated and developed in an orderly fashion, can therefore be anticipated to make a significant future economic contribution to Sierra Leone.

4. It is anticipated that the direct employment potential in the diamond industry is in the 10,000 to 15,000 range, of which up to 10,000 will be seasonally employed in the informal sector. However, the high dependency ratios typical of African countries suggest that between 70,000 and 140,000 people could ultimately be dependent on the diamond industry for their well being.

5. The principal problems that have beset the diamond industry in Sierra Leone have not been government policies *per se*, although these have not always been well thought out. Rather, the industry has been swamped by corruption, often from a very high level in government, which has typically subverted the whole industry for the advantage of a few. To re-establish the diamond industry as a benefactor of the country, the issue of corruption must be tackled. Even the best

mining and diamond-trading policies will not succeed if this is not done. Corruption is not, of course, confined to the diamond industry but it is probably in that industry that it has had its most deleterious effect.

6. It is considered necessary, therefore, that new legislation and regulations should be introduced with a view, *inter alia*, of combating corruption and introducing professional standards into the industry. The principal recommendation is that new legislation (a 'Diamond Act') should be introduced to provide for the better operation of the diamond industry in Sierra Leone. This Act should be complementary to the existing Mines and Minerals Act of 1996. The act should encompass (a) anti-corruption measures and the introduction of standards into the diamond industry; (b) security matters; (c) diamond dealing and exporting; and (d) social aspects of the industry. Certain items in the act will anyway be necessary as a result of the Kimberley Process.

7. The following summarises the areas covered by this study.

7.1 Anti-corruption measures and the introduction of standards

- Office of a diamond commissioner
- Statement of principles for diamond industry participants
- Reporting standards for diamond industry participants
- Reporting requirements of government offices in respect of diamond industry
- Prohibition on direct and indirect industry participation by civil servants or persons in government
- Penalties for infringements

7.2 Security

- Formation of a diamond police unit
- Definition of rights of access to diamond areas
- Mineral rights owners' powers of detention, search, confiscation and limitation of access
- Operational limitations of private security firms

7.3 Diamond dealing and exporting.

- Incorporation of the Certificate of Origin export scheme as well as the other undertakings from the Kimberley Process
- Status of the GGDO
- Possession and dealing in rough diamonds
- Type and number of diamond dealing and exporting licences

7.4 Social aspects of the industry.

- Incorporation of the Community Development Fund
- Establishment of a revolving fund for technical and financial assistance to the artisan and small-scale mining sector

8. The existing Mines and Minerals Act of 1996 forms a generally coherent legal basis for the administration and regulation of mineral exploration and subsequent mining. It is comparable with minerals legislation found in many countries around Africa and more widely. However a number of amendments would lead to a better functioning diamond industry. These relate to the ability of exclusive mineral rights holders in the formal sector to sub-contract mining to those in the informal sector on terms and conditions that are essentially similar to informal-sector mining as already defined. The objective is to reduce the inevitable friction between operators in both sectors in certain of the diamond areas such as Kono.

9. A number of issues have emerged during this study that extend beyond the TOR but which are important for the proper functioning of the diamond industry in Sierra Leone. Attention is therefore drawn to the following matters with the recommendation that additional studies be carried out.

9.1 Institutional capacity. It is apparent that the capacity of the various government institutions that administer, regulate and provide security for the diamond industry is inadequate for the tasks they have to carry out. This inadequacy relates to physical resources, and quality and number of personnel. Major programmes will be required to address these issues, which are also relevant to the remainder of the mining sector.

9.2 Citizenship. There are a number of different categories of citizenship in Sierra Leone (Sierra Leonean citizens, which may have a sub-class of 'citizens of Sierra Leonean origin and nationality'; ECOWAS citizens; non-Sierra Leonean and non-ECOWAS citizens; and persons of dual nationality). This plethora of categories of person makes it difficult to clarify who can hold certain types of mineral rights as well as who may be limited in their areas of residence. In the diamond industry the principal issues revolve around the status of persons of Lebanese origin and the so-called 'Maracas' (typically non-Sierra Leonean ECOWAS citizens).

9.3 Diplomatic status. There is an amount of anecdotal evidence that diplomatic bags are misused for diamond smuggling. There is similar evidence that essentially unnecessary diplomatic accreditation is used by some in the diamond smuggling business. It would be useful for the diamond industry if Sierra Leone could exempt diplomatic status from issues connected with the export of diamonds.

9.4 Currency. The ability to trade in diamonds in both US dollars (hard currency) and Leones (soft currency) is potentially a route whereby quality diamond dealers can be squeezed out of the market. The situation would be resolved if the Leone were once again tied to a hard currency (the euro?). It is noted at this juncture that a hard Leone would be generally advantageous to the functioning of the diamond trade.

9.5 Investment insurance. The extreme levels of insecurity and political risk associated with Sierra Leone are major disincentives to renewed investment in the country by good-quality companies. Part of the solution is access to appropriate insurance, such as through MIGA or individual developed country's export credit schemes.

9.6 Environmental rehabilitation. The legacy of many years' of largely uncontrolled alluvial mining is that extensive areas in the diamond fields have been environmentally degraded. Rehabilitation would not only be a significant sign to local populations that the diamond industry was working for them but also would have impacts relevant to agriculture and water quality and availability.

10. It was notable during discussions with many present and former participants in the diamond industry in Sierra Leone that there was a remarkable reservoir of good will towards the country in its present plight. This extended to the point of offers of technical assistance from, for example, De Beers. In considering the immediate next steps for the development of the diamond industry in Sierra Leone, this good will could usefully be drawn on.

PART I

1. Introduction

This report has been prepared for the Government of Sierra Leone by AMCO-Robertson Mineral Services Limited, at the behest of the Government of the United Kingdom. The views of the consultants are not necessarily shared by either Government.

Four consultants engaged by AMCO-Robertson Mineral Services, with the following specialisations, have compiled this report:

Jim Williams Geologist - *Team Leader*

Donald Sutherland - *Economic Geologist*

Kimberly Cartwright - *Sociologist*

Martin Byrnes - *Lawyer*

2. Terms of Reference

Amco Robertson Mineral Services (ARMS) of Mochdre Business Park, Colwyn Bay LL28 5HE, United Kingdom, were requested by the British Government's Department for International Development (DFID) to undertake a study for developing a strategy for the management of diamond producing areas in Sierra Leone. The initial request by DFID to submit an expression of interest (EOI) was on the 24th of April 2001, and the project was allocated to ARMS on the 9th of July 2001.

ARMS was requested to produce a report, setting out a range of options available for discussion between the Government of Sierra Leone (GoSL) and UK Government (via DFID), for encouraging legitimate mining and trading in the diamond producing areas, while maximising benefits to local communities, and minimising the risk of proceeds from diamond sales being used to fuel long-running conflict.

Although the TOR stipulated essentially a report based upon a desk study, it was imperative that a visit to Sierra Leone was made to meet and talk with various contributing sectors of society. All four consultants made this visit between the 26th of July and the 3rd of August 2001.

The TOR required ARMS to:

- Examine critically the history of diamond mining in Sierra Leone;
- Review current literature on the subject, including the recent World Bank report on Conflict Diamonds, and the January 2000 Partnership Africa Canada report on Sierra Leone diamonds;
- Make contact, and exchange information, with the UN expert panel on diamonds and the arms trade;
- Speak to diamond industry professionals, including potential mining companies and buying organisations, to determine what would be needed to ensure their involvement;
- Contact a representative selection of private security companies to find out what assistance they might render;
- Set out a full range of costed options (where possible) for bringing better control to the diamond areas (from the extreme of forcibly banning all mining, to the other of the government setting up a mining operation on its own behalf).

In setting out the options, ARMS were to take into account:

- International best practice for both artisanal and large-scale mining of alluvial precious stones, paying particular attention to the need to ensure the safety of miners and traders, and the security of the mined stones;

- The impact of the recently introduced diamond certification scheme on government revenues and RUF finances;
- The capacity of the government and various agencies (SL army, police, private security companies, UN) to administer the arrangements;
- The likely costs and benefits, including in economic terms (quantified where possible, both to local communities and the Government of Sierra Leone), of the various options; and assessments of the likely success in preventing the proceeds being misused;
- The expectations of ex-combatants and local communities, and the likely impact of the demobilisation and reintegration programme on their availability;
- The need to ensure human rights are respected.

3. Policy Considerations

3.1 Introduction

Sierra Leone has had a troubled recent past. In the past few months, however, there have been positive signs that the ceasefire recently agreed between the Government of Sierra Leone and the Revolutionary United Front of Sierra Leone, and the combatant disarmament program (which is strongly supported by the international community), may be successful.

Diamonds have been a significant factor in Sierra Leone's history, since their discovery in the country in 1930. They have been particularly significant in the course of the recent civil war. Whilst diamonds are not generally regarded as the cause of the war, there is no doubt that they have contributed to the prolongation of the conflict.

Even now, when a ceasefire seems to be holding, the decisions taken by the Government of Sierra Leone on the future of the diamond industry may cause difficulties between the former protagonists. It is interesting to note that the Lomé Accord dated 18th May, 1999, and signed by the Government and the RUF, although now generally considered to be a nullity, specifically provided that "strategic resources" – notably diamonds – should be subject to special treatment and control by the Government, that all existing concessions should be null and void, and that all government revenues from such resources should be dedicated "to be spent exclusively on the development of the people of Sierra Leone, with appropriations for public education, public health, infrastructural development, and compensation for incapacitated war victims as well as post-war rehabilitation and reconstruction. Priority spending shall go to rural areas." (The Lomé Accord was subsequently breached, and not implemented).

Consequently the adoption of workable and sensible government policies for the diamond industry is of critical importance to the future stability and greater prosperity of Sierra Leone.

However it is important that, in considering its options for the diamond industry, the Government of Sierra Leone bear in mind some important matters, and not make decisions without considering wider ramifications. This report raises many such matters, but the following issues are of particular importance.

3.2 International Competitiveness

The diamond industry in Sierra Leone is not unique in the world in either diamond quality, quantity, in the mode of diamond occurrence or in the likely profitability of diamond mining or trading operations. Consequently Sierra Leone is not a country where companies with strong interests in the diamond business *must* be present. In order to attract investment from such companies Sierra Leone must therefore present a competitive and attractive environment for investment in comparison to other diamond-producing countries.

3.3 Mining

Diamond mining in Sierra Leone is at present widely considered to be artisan mining, involving many workers using very basic tools to recover rough diamonds from alluvial gravels. There are thousands of such artisan miners still active in Sierra Leone, working in difficult conditions, often under the effective control of others, mostly for little reward.

Such mining activities are indeed widespread in Sierra Leone, but there is also significant potential for the future development of a formal diamond-mining sector.

Sierra Leone has considerable known but undeveloped diamond reserves, and there is potential for the discovery of further resources. Mining projects, recovering diamonds from hard-rock kimberlite pipes and dykes rather than alluvial gravels, could be established. Similarly, there is potential for mechanised alluvial diamond mining to take place.

Neither of these types of diamond mining need be inconsistent with the aspirations and interests of artisan miners, if the country adopts appropriate policies. In other parts of the world, there have been successful programmes developing sound working relationships between artisan miners and adjacent major mining companies, to their mutual benefit. Such results could be achieved in Sierra Leone.

These other types of diamond mining also create far greater revenues for the government and also greater general economic benefit for the communities in which the miners operate and for the country as a whole. More information on the potential economic benefits is contained in Part II of this report.

Within the international mining community, Sierra Leone is attractive for geological exploration. Major mining exploration programmes can also have economic spin-off benefits for the community, and if the Government of Sierra Leone can attract companies to carry out such exploration the country will benefit both in the short term and, assuming exploration is successful, in the longer term.

However the development of a formal diamond mining sector, and major exploration programmes, require significant capital investment in the country. If such investments are to be attracted, not only the right policies, but also the right social conditions and security situation and the right investment climate must be in place. Appropriate insurance schemes are also necessary to support currently fragile investor confidence.

3.4 Marketing

An appropriate diamond marketing system is important to ensure that Sierra Leone gains the maximum benefit from its diamond resources. However, reasonable projections of the likely future level of open-market diamond production in Sierra Leone suggest that the country will only be a middle-tier producer. This means that it will be difficult to attract the best-quality diamond trading companies.

3.5 Environmental and Social Context

Also of importance are environmental and social considerations. Environmentally, parts of the country are now devastated as a consequence of artisan diamond mining. It is possible for the Government of Sierra Leone to adopt policies which not only encourage diamond mining but also bring about improvement to the environmental situation, not only for future mining operations but also for existing waste areas.

Similarly, there has been enormous social disruption in Sierra Leone in recent years, most of it attributable to the war, and part of it related to diamond mining. Careful choice of policies is essential if existing social disruption is to be ameliorated and further disruption avoided.

Of particular importance is the future of the ex-combatants who are currently involved in disarmament and retraining programmes. Whilst it is not clear what will be the aspirations of most of the ex-combatants, it is likely that many of them will seek to return to diamond mining areas. Many may wish to engage in diamond mining. If further conflict and social disruption is to be avoided, it is important that there are opportunities for them to take up. Given particular policy choices, the diamond industry may provide lawful and profitable activities for these people. However, the size of the likely future employment in this sector (Appendix E) suggests that there will be limited scope for ex-combatants.

One of the major problems of the diamond industry in Sierra Leone in recent years has been the failure of the benefits from diamonds to trickle down through the industry to the level of the artisan miners. Many have been little more than indentured labour, hostage to other players in the industry. This situation obviously has significant adverse social consequences. If this is to be avoided, the Government must consider adopting policies which ensure that fair prices are available to artisan miners for their production.

3.6 Security

Security is widely considered to be a major concern for the diamond industry. Certainly if Sierra Leone wishes to attract serious investment into the diamond sector, and to encourage growth in the sector, security is a paramount issue. However different potential options can cause greater or lesser security concerns. For example, if the Government chooses to ban any diamond mining, particularly artisan mining, for any period, the security requirement to enforce that ban would be very great. If, however, the Government chooses options which facilitate and legalise artisan diamond mining, encourage miners and traders to bring stones through official channels, and reduce incentives for illegal behaviour, some security concerns will go away.

3.7 New Start

When a new diamond regime is introduced into Sierra Leone this should be accompanied by appropriate publicity aimed at differentiating in the public's mind between the old system and the new. It could be emphasised that this is a 'New Diamond Policy for the New Sierra Leone'.

3.8 Corruption

Whatever options are chosen by the Government, they will not be effective unless the Government also takes steps to rid the country, and particularly the diamond industry, of its greatest threat – corruption. Changing or improving the structure of the industry will not, of itself, prevent corruption, and without addressing the scourge of corruption even the best policy decisions will not bring to Sierra Leone the benefit from the industry and the stability which is needs. Consequently, there is emphasis given to the issue of corruption in this report.

A simplified overview map of Sierra Leone, showing the main drainage pattern and settlement areas is illustrated in Figure 1.

Figure 1 Overview Map of Sierra Leone

4. Policy Options

4.1 CORRUPTION AND THE SETTING OF STANDARDS IN THE SIERRA LEONE DIAMOND INDUSTRY

Corruption and poor professional standards are widely perceived as having been major reasons for the collapse of the diamond industry in Sierra Leone (see Appendix A), and for its failure to provide the benefits to the country that so obviously are derived in countries such as Botswana and Namibia.

The perception that the industry is still deeply corrupt is a major barrier to investment by reputable companies in Sierra Leone. If these issues are not addressed, then the best thought-out mining or marketing policies will be fruitless. Indeed it is a feature of the diamond industry in Sierra Leone that policies that were apparently well conceived have been warped to serve rather different ends to those originally intended.

In this section, the issues of corruption and standards are addressed, with reference, first, to a set of principles that could be applied when policies are being formulated and, secondly, to a number of policy options which might be considered to introduce checks and balances into the operation of the Sierra Leone diamond industry.

It is worth recalling that corruption in Sierra Leone has not only occurred in the diamond industry but that in many ways it came to permeate the whole country. Strong political leadership on this whole question is fundamentally necessary.

Principles

- In choosing policy options, there are guiding principles which are recognised as important in addressing corruption issues (see Appendix A):
- Policies should not be over-bureaucratic, should be as simple as possible and should have a clear line of responsibility for their implementation.
- Policies should aim for transparency at all levels from Ministries down to grass roots.
- Policies should aim for involvement of all stakeholders in the functioning of the industry.
- Those charged with carrying out policies should be appropriately and regularly paid.
- Persons with positions in government or the civil service should not be able to participate (directly or indirectly) in the diamond industry.

Policy Options

The Government of Sierra Leone might consider the following options in addressing issues of perceived corruption and lack of standards. These options are not necessarily alternatives.

4.1.1 Diamond Industry Commissioner

A body independent of the diamond industry regulatory authorities (presently the Ministry of Mineral Resources, and under its auspices the Government Gold and Diamond Office) could be set up – a diamond industry commissioner. The body would be responsible for ensuring the smooth functioning of all aspects of the diamond industry; would be open to receive complaints etc. from industry participants and the public generally; and would have appropriate powers of investigation. Such a body would publish both an annual report and the results of any special investigations carried out (subject to the requirements of any legal process that it might initiate).

To be effective, such a body would need to be headed by an experienced diamond industry participant who was beyond reproach.

Advantages: Independent oversight of an experienced person to provide a check on the other industry participants.

Increase in the level of transparency.

Accessibility to all stakeholders in the industry.

Disadvantages: If not truly independent the office could become a source of dissatisfaction and even subversion of the industry – the reverse of what is intended.

True independence would at least initially require the organisation to be run by a senior expatriate, which would be expensive.

Outline costs: Capital (set up) cost: £80,000 - £120,000

Operating cost: £140,000 - £205,000 per year.

Comments: Such a body would need to have clear reporting lines (for example, to Parliament), and appointment of officers would need to be transparent and open to public scrutiny.

4.1.2 Stringent Controls over Industry Participants

It is normal in the diamond industry, and is the current law in Sierra Leone, that the government must license any participant in the industry, from miner to dealer to exporter. It is also common, not just in the diamond industry worldwide but in other industries which are susceptible to corruption, such as gambling, that licences are withheld from persons or organisations not considered to be fit and proper to hold a licence.

Sierra Leone could implement very strict controls over the granting and holding of licences, such that any person who is considered not fit and proper is prevented from holding a licence, or stripped of his licence. Similarly a company in which such a person exercises influence would be prohibited from holding a licence.

Any person found to be involved in an illegal activity concerning diamonds, or any other form of corrupt activity, would be precluded.

An extension of this approach could be the requirement that international participants in the Sierra Leone diamond industry, such as exporters (if multiple exporters are permitted), must have international affiliation with a recognised international industry body, the membership of which constitutes recognition of standing in the industry.

Advantages: Will help ensure that participants in Sierra Leone's diamond industry are reputable.

Will play a role in establishing good professional standards with industry participants.

Disadvantages: Would give even greater power to a regulator, and risk encouraging other corruption.

If not fairly applied, this would be a cause of dissatisfaction and possibly subversion of the industry.

Outline costs: No specific costs.

Comments: In certain other jurisdictions (e.g. Namibia) in order to have a pass to enter certain diamond restricted areas it is necessary for the applicant to supply a copy of his/her police record in the country of their principal residence. In applying rigorous standards to licensees may arise concerning licences that have already been awarded. Could the standards be applied retrospectively?

4.1.3 Establishment of Professional Standards

Major mining jurisdictions (e.g. Australia, Canada) have established clear rules and regulations for companies that are active in their mining industries. There are normally special rules covering aspects of the diamond trade. Sierra Leone could adopt a professional code of conduct for diamond industry participants based on the practice in senior jurisdictions. Aspects of such a code could be: (a) a statement of principles; (b) stringent reporting standards; (c) publication, in a timely manner, of results both by the industry participants and by the regulatory authorities.

Advantages: Would play a role in establishing good professional standards by industry participants.

Would help create a business environment in which quality companies would be happy to work.

Increases transparency within the industry.

Disadvantages: May create an over-bureaucratic system.

Outline costs: £12,000 – £18,000.

4.1.4 Transparency and Stakeholder Involvement

It was stated above that two of the principles that are important in combating corruption are transparency and stakeholder involvement. The following are a set of options that could be introduced in order to promote both.

Information about the diamond industry and the various participants in it could be frequently and widely disseminated. Specific examples would be: (a) the Ministry of Mineral Resources, the GGDO and the Geological Survey should immediately resume publication of annual and quarterly reports; (b) for artisan diamond mining areas quarterly (or monthly) licence and production statistics should be published by the Ministry and circulated to all affected chiefdoms with a requirement that this information is displayed publicly; (c) the disbursements from and the applications of the Community Development Fund should be publicised at both the national and the chiefdom levels; and (d) diamond dealers should be required clearly to display at their premises their licence, any code of principles that may be adopted and their monthly trading records for the previous twelve months.

Advantages: Disseminates to the general population information about the industry participants and their activities.

Creates an awareness of specific benefits that the industry may bring to a particular area.

Provides an informed basis on which irregularities in the functioning of the industry in general or of individual participants in particular can be identified.

Comment: The Community Development Fund derives funds from part of the diamond export tax. However, this need not be its sole source of funding as it can be augmented by (a) donor sources; and (b) a portion of the royalties to be paid by a future formal mining sector.

Outline costs: No specific cost.

4.2 INSTITUTIONAL CAPACITY TO ENSURE EFFECTIVE IMPLEMENTATION OF POLICY

The strength of the State institutions involved in the diamond sector is vital to the good functioning of the industry. This applies in relation to the licensing system, the control and valuation of exports, and the general promotion of the industry and encouragement of investment.

Corruption within these institutions would be a major problem, but there is more than just a lack of corruption required. It is also important that they have the technical skills and necessary resources to carry out their functions.

The Sierra Leone Government already has several institutions charged with the necessary authority to manage and promote the diamond industry in Sierra Leone. However it is clear that critical parts of these institutions are at best severely under-resourced, and at worst are involved in corruption. The current state of these institutions also presents a poor image to potential investors.

Existing Government organs which need to be considered are the Ministry of Mineral Resources (including the Geological Survey, the Mines Monitors and Mining Wardens), and the Government Gold and Diamond Office.

Options that the Government could consider are:

4.2.1 Continue with Existing Authorities

The Government of Sierra Leone could leave the existing authorities in place. If it does so, however, it will need to take major steps to strengthen these institutions (see below) if they are to be effective.

Advantages: Continuity - there would be no void whilst existing institutions are replaced.

Existing contacts and institutional knowledge would be retained.

Disadvantages: It may prove very difficult to change existing institutions, particularly to weed out corruption.

Need to design a new "model" from the beginning.

Outline costs: See below.

4.2.2 Establish a new "Diamond Authority"

The Government could establish a single Diamond Authority, responsible for all licensing as well as valuation and certification for export. Such an authority would be a regulatory body, distinct from the office of the Diamond Commissioner discussed earlier.

Advantages: Permits building a new organisation untainted by the past.

Facilitates the removal of corruption from the industry.

Disadvantages: May lose institutional knowledge.

May be problems through lack of continuity – the industry needs oversight immediately.

Experiences with this approach elsewhere have been mixed. Requires very careful delineation between the authority of the new organisation and others.

Adds an extra layer of cost to the government.

Outline costs: Capital (set-up) cost: £440,000 - £660,000

Operating cost: £200,000 - £300,000 per annum.

Comment: The establishment of any new office to run the diamond industry must be considered in the context of the limited number of trained and experienced personnel available in Sierra Leone. The abstraction of experienced personnel from the limited staff at such as the Ministry of Mines will mean that other important sectors (e.g. gold, country promotion) will potentially be deprived.

4.2.3 Institutional Strengthening for Ministry of Mineral Resources

In order for it to be effective, the Ministry (and for that matter a new Diamond Authority) need significant technical assistance for institutional strengthening in many areas. The Government of Sierra Leone could seek such assistance from the international community. Support and assistance would be useful in a number of areas, not least the Geological Survey.

Advantages: Expert assistance can be obtained.

Existing contacts and institutional knowledge are retained.

Disadvantages: Technical assistance can be expensive, and may require the help of multilateral or bilateral aid agencies. This can sometimes be a long and difficult process.

Outline costs: A full assessment of the costs required for institutional strengthening for the Ministry are beyond the scope of this study as they have many functions other than those concerned with diamond industry. It is not unreasonable to expect that the costs of the strengthening necessary to carry out its responsibilities for the diamond sector will be broadly similar to those outlined for the establishment of a new diamond authority and the upgrading of the GGDO.

4.2.4 Support for GGDO

The Government Gold and Diamond Office is a critical part of the diamond industry chain. It is charged with the oversight of valuation of diamonds and gold for export purposes.

It presently operates from cramped facilities, with limited equipment and inappropriate security. Its limited facilities mean that it is not capable of handling a significant increase in the volume of diamonds being exported through official channels.

The GGDO could be provided with appropriate accommodation with better security facilities. Efforts could also be made to train further diamond valuers.

Advantages: This would increase the capacity of the GGDO to process exported stones, necessary if more stones are to be put through official channels.

Lessen the risk of a security breach at GGDO. .

Outline costs: Capital cost: £80,000 - £125,000

Operating cost: £120,000 - £180,000 (excluding independent valuator)

Comments: The precise role of the GGDO will be dependent upon the marketing policy chosen (see below).

4.3 DIAMOND MARKETING

For many years Sierra Leone has lost a significant portion of its diamond production to smuggling (see Appendices A and J). As a consequence, the Government of Sierra Leone has lost revenues, but there are other adverse effects as well. An active smuggling industry feeds corruption, security problems, environmental vandalism, and social upheaval.

With the widespread distribution of a commodity that represents such concentrated value as diamond, it is inevitable that some degree of smuggling will occur from a country such as Sierra Leone. The function of policy should be to ensure that the amount of smuggling is minimised.

One of the principal factors in this is an open and efficient market. It can be demonstrated (see Appendix J) that during the 1980s the diamond market in Sierra Leone started to function inefficiently, and failed to deliver diamond prices internally that matched prices on the world market. This has had the consequence that artisan miners, who have been the major source of mining of rough diamonds in that time, were denied access to fair prices for their production, leaving them beholden to others who finance and control their activities.

The Sierra Leone diamond market can be considered in two parts, internal (trading within the country) and external (export and external sale).

External Market

The following policy options can be considered for the external market.

4.3.1 A Single Monopoly Exporter

All diamond exporting could be by a single entity with a monopoly. The entity could be state owned, private, or partly State and partly privately owned.

Anyone exporting diamonds from Sierra Leone would be required to sell to the monopoly exporter.

Advantages: Permits maximum government control on purchasing and exporting diamonds.

Provides clear basis for regulation of taxation.

Ensures compliance with Certificate of Origin scheme.

If total or partial private ownership is chosen, this right could be auctioned, raising immediate revenue for the Government.

Disadvantages: Does not provide a transparent mechanism for diamond pricing. As a consequence fair prices may not be paid to miners and dealers.

Limits opportunities for Sierra Leone national involvement in diamond marketing.

Outline costs: Self-financing through charge on export revenues.

Comments: Schemes such as this have been tried in the past in Sierra Leone with varying degrees of success. For it to work there must be a mechanism to ensure that the internal sellers obtain near-international market prices. This could be done by the use of tenders (below) or by the involvement of an independent valuator.

4.3.2 Multiple Licensed Exporters

Diamond exporting could be permitted by a certain number of licensed exporters, who are required to use a government office (e.g. GGDO) for export valuation purposes.

The number of export licences granted would be a factor of the volume and value of diamonds being exported. Export licensees could be subject to performance targets, and a licensee not meeting its target would not have its licence renewed.

Advantages: Provides a clear competitive mechanism for transferring international diamond prices to the internal market, thus increasing both government revenues and benefits to industry participants in Sierra Leone.

Provides opportunities for development of Sierra Leone national companies.

The intervention of a government office provides a mechanism for regulation at the point of export and ensure such as the Certificate of Origin scheme is adhered to.

Disadvantages: Requires careful selection of licensees - the scheme relies on the exporting companies being able to market their goods effectively in the main diamond centres, and weak companies will not be able to do this and will hence tend to lower internal prices or smuggle in order to make up their margin.

Outline costs: Self-financing through charge on export revenues.

Comments: This is effectively the present system.

To be successful, this approach requires a limited number of companies or the margins available will be too small and hence will encourage smuggling.

In the original concept for the current scheme, there were to have been eight exporters. However, there has been a proliferation of sub-divisions of licences (with no benefit to government revenue), and it will not be possible for all the sub-holders to make an adequate return because the total market is too small. This will lead to a tendency to lower prices or smuggle. This situation could be corrected by the adherence to strict performance targets (of amounts exported) with licences being removed from those who cannot meet the targets. The inclusion of a genuinely independent valuator is also important to ensure that good prices are obtained and that proper relations are maintained between the government and the exporters.

4.3.3 Export by Tender System

Exporting could be by a tender system, in which international buyers are invited to participate in a periodically held tender process, and through which all exported stones must be put. This would be managed through a government office (such as the GGDO), but overseen by an independent valuator. The sellers in the tender could be individual sellers (traders or miners), or a single exporting entity if that option is chosen (above).

Advantages: This is a transparent system, which, particularly where the quality and volumes of goods available are attractive to the market, can deliver top prices.

Disadvantages: When either the quality or volumes of diamonds are low or when the diamond market is down, tenders may not provide good prices.

Tenders are open to collusion on the part of bidders.

Small mining concerns may not have sufficient production to present regularly or in attractively sized parcels.

To hold tenders in Freetown would tend to discourage bidders because of the expense involved.

If tenders are not held on a regular basis, this does not permit regular cash flow and discourages exporters.

Outline costs: Self-financing through charges on export revenues.

Comments: Tenders have had a regular place in the diamond-marketing world for many years. To gain the best results, good practice must be followed and the tender supervised by someone experienced in that business. An independent valuator should place his own bid with those of the participants and this can act as a reserve price.

Internal Market

The following are policy options that can be considered for the internal market; that is, the buying of diamonds from miners and the trading of diamonds prior to the point of export.

It should be noted that unlike the export market, where a number of mechanisms can and have been introduced to act as checks and balances on the prices being offered (competition, tenders, independent valuators), the internal market has traditionally only had one such mechanism, that of competition between buyers.

Insofar as many of the producers in Sierra Leone have traditionally received a poor price for their production, then it may be presumed that this mechanism has worked poorly.

4.3.4 Dealing Licences Widely Available

Licences to deal in diamonds within Sierra Leone could be made available to anyone who has the requisite capital and skills, including foreigners.

Advantages: In theory, this would foster the greatest competition and thus facilitate the best prices.

Access to capital sources.

Disadvantages: Contrary to national aspiration for local control of the industry.

Foreign involvement in the internal market tends to encourage smuggling.

Increasing the number of licences would make tracking of diamonds more difficult.

Outline costs: Self-financing.

Comment: In certain other countries with open diamond markets, certain restrictions are placed on non-national dealers. These include: (a) restriction to certain urban areas (this also has applied in Sierra Leone); (b) restriction in the hours of business (i.e. no dealing at night), and (c) the presence of government officers in their buying offices when dealing is being done.

4.3.5 Dealing Licences Available but Restricted

Licences to deal in diamonds within Sierra Leone could be made available only to Sierra Leone nationals with requisite capital and skills.

Advantages: Considerable competition would foster good prices.

Would suit national aspiration for Sierra Leone control of the diamond industry.

Disadvantages: May limit availability of capital for trading.

Would be likely to encourage the creation of front companies.

If applied very strictly would most probably encourage smuggling by those cut out of the system.

Outline costs: Self-financing.

4.3.6 Monopoly Internal Market

A single entity could be granted the monopoly right to control the local market. Individuals who bought and sold diamonds would need to be employees of this entity. The entity could be State owned, privately owned, or partly private and partly State.

Advantages: Good government control, and good basis for taxation of trading activities.

Disadvantages: No pricing competition, and thus it is possible that fair prices would not be paid.

It would be likely that many potential diamond traders would still continue to operate, but illegally, and therefore be forced to smuggle.

Makes illegal a major business opportunity for Sierra Leoneans.

Would require capital resources, which may not be available.

Outline costs: Capital (set-up) costs: £520,000 - £680,000

Working capital: £4,000,000 - £7,000,000

Operating costs: should be self-financing from diamond trade.

Comment: Sierra Leone needs a vibrant internal market, and that means it needs competition. A monopoly trader would not provide this.

The nature of the diamond industry, as it operates today in Sierra Leone and in other countries, is such that there will always be opportunities to trade diamonds, and there will always be an incentive to do so. It is in the interests of Sierra Leone to ensure that all traded stones remain in official channels, and are not smuggled. This is best achieved by making diamond trading legal, if it is likely to happen anyway. Without legal status, participants in this activity are forced to use illegal channels, which means smuggling.

Diamond Dealing Currency

The currency in which diamonds are traded is very important to ensure that the market functions efficiently. This is particularly true in a country such as Sierra Leone in which the currency is endemically weak.

4.3.7 Diamond dealing should only be done in hard currency (US dollars).

Advantages: The US dollar is the currency of choice in the international diamond market. There is therefore no enticement to smuggle to gain hard currency.

There is no issue involved in translating international prices into the local market, other than bank charges.

Disadvantages: At present, there are problems with the local banking system, which requires dealers to carry physical dollars to Sierra Leone. This increases risk and hence cost.

Sierra Leonean businesses trying to enter into the market may be penalised as they do not have sufficient dollar funds, or can only get such funds at a disadvantageous rate of exchange through the banking system.

4.3.8 Allowing diamonds to be purchased in either hard currency or Leones

Advantages: This will facilitate the entry of Sierra Leonean businesses into the market.

Disadvantages: This opens the door to schemes whereby 'cheap' Leones are used to push up the local price of diamonds beyond the fair market value for bona-fide dealers. Such dealers will be squeezed out of the market that becomes uncompetitive.

Comment: The use of Leones in the diamond market has been a major problem in the past and it is a major disincentive to quality diamond-buying companies. The possibility can be partially circumvented by (a) limiting the trading for diamonds in Leones to a specific time period (e.g. one year) during which Sierra Leone companies become established; or (b) having a ceiling to purchases in Leones either for a single buyer or for a single year.

4.4 POLICIES FOR DIAMOND MINING

The following policies could be considered for diamond mining in Sierra Leone.

General Approaches to Diamond Mining

4.4.1. Licensing scheme for diamond exploration and mining (first come/first served) but with certain areas reserved for Sierra Leone nationals with certain types of licence (i.e. artisan digging)

This is broadly the present law (Appendix B).

This option would involve a widespread licensing system as per the preceding option, and would have the same advantages and disadvantages as that option.

The difference is that certain areas would be reserved specifically for artisan mining, and no other licensees would be permitted to operate there. Artisan mining permits would be restricted to Sierra Leonean nationals (Sierra Leonean interests could, of course, participate in all other licences and areas).

Advantages: Provides wide involvement of Sierra Leonean interests in diamond development.

Good basis on which to attract capital and technical expertise.

Will at least partially involve Sierra Leonean nationals (both management and labour). Provides full encouragement for Sierra Leonean interests to develop skills and employ capital, thus retaining much benefit from diamond mining for Sierra Leone and its people.

Provides formal basis for ensuring technical, labour, and environmental standards.

Provides sound basis for ensuring tax collection and industry regulation.

Will attract capital for new prospecting for additional diamond deposits, thus enhancing Sierra Leone's wealth.

Provides boost to local economy through wide involvement of foreign firms and capital.

Provides environmental controls in diamond mining areas, through widespread participation of larger (better regulated) companies.

Provides potential work for ex-combatants.

Provides limited incentive for diamonds to be mined illegally and smuggled.

Provides likelihood that most mined diamonds will come through official channels, thus increasing government revenues.

Prevents conflict or disputes over most areas where Sierra Leonean nationals have been most traditionally involved in diamond mining.

Will encourage involvement of Paramount Chiefs in land allocation process.

Disadvantages: Precludes the possible relationships between large mining companies and artisan miners where beneficial "overlap" could exist.

Depending on the areas reserved may require cancellation of (some) existing licences.

May result in sterilisation of resources, because areas are not being explored by large companies and because of inefficiencies of artisan mining.

4.4.2. Licensing scheme for diamond exploration and mining, open to all-comers, with a first-come/first served licence allocation provided technical and financial conditions are met.

Under this option, the Government would open all potential diamond mining areas to all-comers, Sierra Leonean or foreign. Licences would be granted on a "first come, first served" basis, subject to appropriate technical and financial strength. Similarly, artisan mining would be encouraged, with a traditional artisan-mining permit granted through the licensing system. Sierra Leonean participation (either solely, provided they had the necessary expertise available, or through joint ventures with foreign companies) could be encouraged for all licences. Artisan mining permits could be restricted to Sierra Leonean nationals.

With this approach, it is possible to have "overlap" of artisan mining and deeper mining or exploration licences. Artisan mining rights could be restricted to, say, 20 metre depths, with other licensees holding rights deeper than that.

A variation on this approach would be to require that all foreign companies participating in Sierra Leonean diamond mining must do so in partnership with a minimum Sierra Leonean interest.

Advantages: Provides wide involvement of Sierra Leonean interests in diamond development.

Good basis on which to attract capital and technical expertise.

Will at least partially involve Sierra Leonean nationals (both management and labour). Provides full encouragement for Sierra Leonean interests to develop skills and employ capital, thus retaining much benefit from diamond mining for Sierra Leone and its people.

Provides formal basis for ensuring technical, labour, and environmental standards.

Provides sound basis for ensuring tax collection and industry regulation.

Will attract capital for new prospecting for additional diamond deposits, thus enhancing Sierra Leone's wealth.

Provides boost to local economy through wide involvement of foreign firms and capital.

Provides environmental controls in diamond mining areas, through widespread participation of larger (better regulated) companies.

Provides potential work for ex-combatants.

Provides limited incentive for diamonds to be mined illegally and smuggled.

Provides likelihood that most mined diamonds will come through official channels, thus increasing government revenues.

No need to expropriate existing licences, and avoids compensation claims.

A requirement for Sierra Leonean participation would force foreign companies to involve Sierra Leonean interests, possibly leading to wider Sierra Leone participation than would otherwise occur.

Disadvantages: Too much outside involvement may alienate Sierra Leonean nationals.

Foreign presence may cause social tensions (and future strife).

Widespread presence of foreign companies may destabilize the local economy, producing disparities in the diamondiferous areas in terms of cost of living, employment opportunities, level of infrastructure development, as well as attract seasonal migrants and other outsiders.

May have a negative impact on traditional customs and value systems.

A requirement for Sierra Leonean participation could discourage foreign investors, who have encountered difficulties with such schemes in other countries. In particular, investors will not like the probable need for a free carry on a significant part of their investment.

4.4.3. Licensing scheme for diamond mining, but open to Sierra Leonean nationals only

The Government could permit widespread diamond mining through a licensing system, either artisan mining or mechanised mining, but only Sierra Leonean nationals or wholly Sierra Leonean owned companies would be given licences. Thus extensive artisan mining would be encouraged.

Advantages: Retains diamond resources in Sierra Leonean national hands.

Provides potential work for ex-combatants.

Potential beneficial spin-off into local support economy.

May buy important national support and build upon feeling of national unity.

Disadvantages: There is insufficient local capital and technical expertise to develop Sierra Leone's diamond resources.

Inevitably foreigners will endeavour to become involved in the Sierra Leone diamond industry because of the profits available, despite such involvement being illegal. The lack of available capital and expertise amongst Sierra Leonean nationals will encourage and facilitate this. This will likely lead to illegal and corrupt deals between Sierra Leonean nationals and foreigners.

This in turn will lead to increased incentive to smuggle diamonds, and the consequent drainage of revenues from Sierra Leone, and other problems from smuggling.

Will require cancellation or buy-out of (many) existing mining and trading licences that will be detrimental to Sierra Leone in terms of investment credibility and will likely lead to significant compensation claims.

Possible negative impact on the environment – the involvement of foreign companies, which are subject to international pressure on environmental issues, brings good environmental practices, and the extension of those practices into surrounding areas.

Will not encourage exploration, particularly for kimberlites, and hence will potentially limit the life of diamond mining.

Comment: Implementation of this policy, like a number of others, would require a clear definition of Sierra Leonean citizenship.

4.4.4. Creation of National Diamond Mining Company (state monopoly) – exclusive rights

The Government could create a (State owned) diamond mining authority, and vest in it the exclusive right to mine and export diamonds.

Advantages: Retains control of diamond resources in Sierra Leonean hands.

Permits development of unified plan for the whole of the diamond fields.

Provides simple basis for tax collection, and reserves for the State all of the profit from diamond mining.

Good basis for imposition of technical and environmental standards.

Disadvantages: Lack of qualified personnel, technical skills, governance structures and safeguards to ensure compliance with mining policies and efficient operations, leading to inefficiency and corruption.

Lack of adequate capital resources in Sierra Leone to ensure proper development of the mining fields.

The Government would be diverting its available capital resources into a high-risk activity when those resources are needed elsewhere.

Inability to control (police) the whole country, hence there is likely to be significant illegal mining and thus smuggling, with its associated problems.

Likely lack of support from local populations in the diamond fields.

Illicit diamond trade likely to continue to flourish.

Will require cancellation or buyout of existing mining and trading licences, which will be detrimental to Sierra Leone in terms of investment credibility, and likely lead to significant costs.

Outline costs: Capital costs: all capital development costs in the development of the diamond fields - $140 million - $205 million

Additional security costs to enforce monopoly

Possible legal costs due to cancellation of existing licences

Comment: The creation of a nationalised diamond entity would be seen as a negative factor by the international financial community, running against the widespread trend to privatisation of nationalised assets. It is unlikely to be justifiable on economic grounds and hence would be a political decision.

4.4.5. Grant of monopoly concession to appropriate entity

The Government could identify a foreign company, with appropriate technical and financial resources, and grant to that entity the exclusive right to mine and export diamonds. This is what happened earlier in the history of diamond mining in Sierra Leone, with the Sierra Leone Selection Trust.

A variation on this approach is for the Government to form a joint venture with a foreign entity, thus enabling the Government to retain a significant equity interest in diamond production (e.g. Botswana, Namibia).

Advantages: This right could be auctioned, raising short-term funds for the Government.

Ensures that the best technical skills are brought to bear, and that the company has the necessary financial resources to develop the diamond fields in the interests of Sierra Leone.

Permits development of unified plan for the whole of the diamond fields.

Provides simple basis for tax collection. If the Government retains equity, this will bring a share of the profits of diamond mining to the State.

Good basis for imposition of technical and environmental standards.

Disadvantages: Granting exclusive rights such as this, particularly with significant Government involvement, may lead to inefficiency and corruption.

If the Government retains equity, outside participants will be reluctant to give Government a free ride on shareholding and investment. Consequently the Government will be required to devote its scarce resources to a high-risk activity.

Inability to control (police) whole country, hence there is likely to be significant illegal mining and thus smuggling, with its associated problems.

Likely lack of support from local populations in the diamond fields.

Illicit diamond trade is likely to continue to flourish, and the company will have to incur major policing/security expenditure that will probably be ineffective (this problem happened with the Sierra Leone Selection Trust).

Will require cancellation of existing mining and trading licences, which will be detrimental to SL in terms of investment credibility, and likely lead to significant compensation claims.

Will cause feelings of inequity among the population, with foreigners given precedence over Sierra Leone investors.

The foreign investor will certainly have other interests in other countries. This can lead to the national interests of Sierra Leone being subordinated to the interests and priorities of the foreign investor (which will not have unlimited capital, and may choose to give greater priority to other countries).

Outline costs: Possible legal costs from cancellation of existing licences.

Additional security costs to enforce monopoly

Comment: It is unlikely that there will be any financial benefit to the government from an equity participation in such a company. Any participation must therefore be made on political grounds. Costs resulting from the cancellation of existing licences will have to be borne by the government and may exceed any proceeds from possible auction of mineral rights.

4.4.6. Award known kimberlite deposits to one or two competent companies and licence rest of diamond areas only to Sierra Leone nationals

There are known kimberlite deposits in Sierra Leone, which have yet to be exploited. The Government could compulsorily acquire rights over these known deposits, and auction them.

This could be done in conjunction with widespread licensing over other diamond areas, but restricted to Sierra Leonean interests.

Advantages: Auction of rights to kimberlite mines could raise significant short-term income for the Government.

Would ensure that necessary technical and financial resources are available for kimberlite mining.

Disadvantages: Requires expropriation or buy-out of existing licences from kimberlite areas. This will have a significant negative impact on investor sentiment, discourage foreign investment in all sectors (not just diamond mining), and expose the Government to significant compensation claims (possibly eliminating the benefit from auction proceeds – the amount bid by the incoming auction winner is a good indication of the value of the property expropriated, and thus the amount of the claim against the Government).

Could have a poor environmental impact on other diamond mining areas.

Would limit/preclude systematic prospecting for new deposits.

Outline costs: Possible legal costs from cancellation of existing licences.

Comment: Costs resulting from the cancellation of existing licences will have to be borne by the government and may exceed any proceeds from possible auction of mineral rights.

4.4.7 Complete closure of the diamond fields

The Government could completely close the diamond fields, for a limited or extended period.

Advantages: Starves out illegal diamond trade.

Provides breathing space for country reorganisation.

Provides incentive for participation in training programs and possible entry into alternative occupations.

Disadvantages: Likely to reinforce illicit diamond mining and trading, because of the difficulty in enforcing a ban – and all diamonds mined will have to be smuggled out of Sierra Leone.

Likely to exacerbate security problems.

The cost of attempting to enforce the ban would be prohibitive.

Will require cancellation or buy-out of existing mining and trading licences, which will be detrimental to Sierra Leone in terms of investment credibility, and may require significant compensation.

Means no earnings for Government, and no economic benefit to the country and its people from mining and other service industries.

Reduces incomes of artisan miners, and likely to cause more social disruption as a consequence.

Outline costs: Possible legal costs from cancellation of existing licences.

Additional security costs to enforce monopoly

Comment: It is likely that it would be next to impossible to prevent all diamond mining in Sierra Leone, even for a limited period. The example of SLST/NDMC in its efforts to police even a limited area is particularly instructive.

Apart from the cost of attempting to enforce the ban, it would have the effect of forcing any diamonds mined to be smuggled, with the consequent problems. When eventually the Government of Sierra Leone sought to reinstate normal diamond operations, it might find that the ban had so entrenched illegal activity that it becomes impossible to overcome.

4.5 SECURITY IN THE DIAMOND INDUSTRY

Security is essential for the diamond industry in Sierra Leone, at several levels.

If diamond mining, particularly artisan mining, is to be made generally illegal, a major policing effort will be required if the mining ban is to have any chance of success.

> Assuming artisan mining is encouraged and permits are readily available, there is still a need for low level policing in diamond producing areas by a police force skilled at dealing with diamonds and diamond miners. It is inevitable that there will be some disputes, over ownership of diamonds or licence areas, and good policing will be needed.

As long as significant diamond mining is taking place, there will be a need for specific security for diamond buyers and exporters, to ensure that buyers can get out to and survive in diamond production areas. Not only must their diamonds be protected, but so must the money needed to buy diamonds.

Any major hard rock diamond mining projects will also need specific security and exclusive rights of access over small areas. This will need some form of security force to enforce.

Options for policing and security that the Government might consider include:

4.5.1. Security could be provided by continued UN involvement

The Government could request UN forces to provide ongoing security.

Advantages: An international force, if chosen correctly, may be less prone to corruption.

Disadvantages: Inappropriate training for this task.

Contrary to UN mandate and, apparently, to the wishes of the UN command.

Outline costs: Even a scaled-back UN force of, say, 5,000 would cost over a hundred million US dollars per year.

Comment: During the period when the ECOMOG force was responsible for internal security, members of this force became involved in the diamond trade. There is a risk that this would happen again with an international force. There is also no obvious long-term source of funding for such a force as this, which is also disproportionate to the long-term financial benefits for the diamond industry to Sierra Leone.

4.5.2 Security could be provided by Sierra Leone Army

The Sierra Leone army could be charged with providing general and specific security in diamond areas.

Advantages: A ready supply of troops.

Disadvantages: This is contrary to the normal function of the army, and soldiers are not trained to handle the type of policing work required.

The SLA command does not envisage this as part of their future function.

Public trust of the SLA has yet to be properly re-established.

Risk that soldiers would take up mining themselves, or collude with others acting illegally.

Outline costs: This need have no specific diamond related costs unless a specific role for the SLA in the diamond fields resulted in an increase in its personnel.

Comment: The SLA could become involved in operations in and around the diamond fields (and elsewhere) in Sierra Leone should there be an armed banditry problem in the future. This, however, is not a diamond-specific issue.

4.5.3 Security could be provided by the police force

The Sierra Leone Police force (SLP) could have the principal security responsibility over diamond areas. A specialist diamond unit could be created within the SLP. This will need international assistance, for example from other specialist diamond units in other countries. Should a specialist diamond force be established then the functions of the Mines Monitors could be transferred to this unit.

The size of the unit will depend on the overall arrangements made for security. However, it seems likely that such a specialised unit will have 50-150 officers.

Advantages: The type of low-level security that will be needed is a normal function of a police force, which has the training to handle these types of functions.

Opportunity to build a specialist diamond force within an existing policing organisation.

Disadvantages: Extensive training still required – the necessary resources are not presently available.

Outline costs: Depends on size of unit and responsibilities given to it. If the Mines Monitors are disbanded, then the funds presently assigned to the mines monitoring system could be allocated to this unit (see below).

Comment: Many police forces in diamond-producing countries have specialist units dedicated to the problems raised by the diamond industry. Their functions are primarily those of intelligence gathering and coordination of the activities of those other entities (e.g. Customs and Excise) that also have security responsibilities for aspects of the diamond industry.

4.5.4 Use of private security forces

Private security forces are used worldwide in diamond areas, and are generally considered acceptable for the provision of security over particular diamond mining operations run by large companies. However they are not widely used for regional policing of diamond areas.

Activities of such firms are not well prescribed in current legislation. Government could introduce specific legislation which could cover the following issues: (a) the extent and limitations of private security firms in the diamond industry; (b) the extent to which mining companies and their agents have powers to detain, search, and confiscate the property of persons in the concessions; (c) the restriction of reward for services by private security companies to payments in cash and, specifically, a ban on payments in kind such as mineral concessions or in diamonds; and (d) that when a diamond mining licence is applied for a formal 'security plan', equivalent in status to an environmental impact plan, should be submitted by the applicant and that the mining licence should not be awarded without such a plan being approved by the government (Ministry of Mines and other relevant security bodies).

4.5.5 Mines Monitors

The system of Mines Monitors is currently ineffective. The staff level is of limited educational attainment and has little relevant experience. It does not effectively liase with other government bodies responsible for aspects of diamond security.

The government could consider scrapping this entity and giving its responsibilities and budget to a specialist SLP unit.

Advantages: This will consolidate expertise and activities in a single specialist unit.

It will assist in coordination of efforts with other bodies involved in suppressing diamond industry criminal activities.

Outline costs: The Mines Monitors are currently paid for out of a portion of the diamond export levy and are, in principle, self-funding. In the present FY this may total around £100,000 but in future years, as exports increase, the funding available could become as much as £200,000. If the functions of the Mines Monitors are transferred to the SLP, then this funding should follow them, specifically ear-marked for the diamond police unit.

4.6 OTHER ISSUES

4.6.1 Availability of credit for the artisan and small-scale diamond mining sectors

A recurrent problem in the informal mining sector is the availability of finance. This is principally because individual operations in this sector are very high risk and do not easily qualify for credit on normal credit rating terms as may be applied by the local commercial banks. However, the sector as a whole is of much lower risk, suggesting that a pooling of the risk should be possible and in this manner credit could be extended to the participants.

Government could consider the establishment of a revolving fund for the sector, to operate by (a) the provision of small loans, (b) the leasing of large items of equipment from a pool, and (c) the sale of smaller items of equipment. Access to the fund would be limited to licence holders in informal diamond sector.

Advantages: Would make both finance and appropriate equipment readily available to participants in the informal sector.

Would permit the dissemination of technical advice and ideas of 'good practice'.

The influence of informal funding in the sector would be diminished.

Disadvantages: There is a risk that the funds would be misapplied and that the fund would not replenish itself.

Outline costs: To establish a fund approximately equivalent in value to that of 1960 (accounting for inflation) would require an initial investment of approximately £400,000.

Comment: The 'model' for this is the American Aid Loan Fund, which operated successfully in the 1960s. During this decade, this had a multiplier effect of at least ten times its original fund of Le 100,000.

PART II - Appendices

A. **History of Diamond Mining in Sierra Leone**

B. **Existing Regime for Diamond Mining, Trading and Export**

C. **International Context**

D. **Potential for Diamond Mining in Sierra Leone in the Future**

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K. **UN Security Council Resolution 1385 (2001)**

Appendix A

History of Diamond Mining in Sierra Leone

1. Introduction.

The history of the diamond industry of Sierra Leone can be written from a number of points of view – economic, geological, social, *etc*. The present brief review, which has a broad chronological structure, concentrates on a number of aspects that are relevant to understanding the current situation in the sector. Emphasis is also given to past arrangements within the Sierra Leone diamond industry, which have relevance to present-day considerations of mining policy. Key documents in compiling this review are Pollett (1937), Van der Laan (1965), Hall (1969) and Greenhalgh (1985).

2. 1930 to 1951. Discovery and initial industrial development.

Diamond was first discovered in Sierra Leone in January 1930 during a routine Geological Survey field survey of the Kono District (Pollett, 1937). Initial announcement elicited no response but in 1931 news of the discovery reached Consolidated African Selection Trust Ltd ("CAST"), the operators of the largest diamond mine in the then Gold Coast (Ghana) (Pollett, 1937; Wilson, 1985). CAST sent an experienced team of prospectors to Kono, co-incidentally with the further discovery of diamonds by the Geological Survey in the Kenema area (Pollett, 1937). CAST confirmed the initial discoveries and then took out an exclusive prospecting licence of 4170 mi2 (10,675 km2) covering the whole of the area where diamonds were known. Following early meagre returns, in 1932 the CAST team discovered significant deposits and proceeded to establish a mine based on the alluvial diamond resources in the Yengema – Sefadu – Koidu area of the Kono District, despite this being during the Great Depression when almost all the major diamond mines in South Africa were being closed (Chilvers, 1939; Gregory, 1962).

Noting that all the diamonds that had been found in the Kono District were in tributaries of the River Sewa, reconnaissance prospecting during 1933 and 1934 revealed diamonds along almost the whole length of this river as well as at various locations in the drainage basin of the River Moa to the south. Consequently, CAST, through a 100%-owned subsidiary, Sierra Leone Selection Trust ("SLST"), applied to the colonial authorities for an exclusive prospecting and mining licence covering the whole of Sierra Leone. After some discussion involving the Colonial Secretary (Wilson, 1985), it was decided to award this licence to SLST (with the minor and unimportant exception of the areas already awarded as mining licences for iron ore at Marampa and Tonkolili) for a period of 99 years. The agreement committed SLST to fund all the capital investment involved in developing the diamond fields but 27.5% of the profits were to be paid to the colonial government. An annual rental of £7000 was also imposed. Important arguments that were advanced in favour of this arrangement (as opposed to a licensing system open to all-comers) were that the development of the diamond fields would be in the hands of a single, well-capitalised company with established experience of diamond mining in West Africa. Moreover, wages, working and living conditions for the African labour force could be standardised and the government could more easily collect profits taxes, customs duties and other proceeds (Wilson, 1985, pp159-160).

In 1932 a Protectorate Mining Benefit Trust Fund was established for the ‘exclusive benefit of the natives of the Protectorate’ (i.e. excluding the Freetown Peninsula Colony). Into this fund were paid all mining rentals, including SLST’s annual £7000. However, only a portion of this sum was used in the Kono area, a matter which became of concern to the Konos (Greenhalgh, 1985).

As the industry expanded, illegal diamond buying (“IDB”) of stones stolen from the mine was detected. Several thousand non-Konos had settled in the mining area by early 1935 and they were implicated in the IDB trade. In 1936 a Diamond Industry Protection Ordinance was passed which required non-Konos to obtain a licence if they wished to reside in identified Diamond Protection Areas. This ordinance also permitted SLST to establish a Diamond Protection Force that had powers of arrest of employees who had stolen diamonds. Possession of uncut diamonds anywhere in the country was also made an offence.

Once established, the diamond industry expanded rapidly. A ‘model’ town was established at Yengema and production rose rapidly to over 900,000 ct in 1937. During the Second World War, when diamonds were a strategic commodity important to the war effort, SLST production reached an historic high of 1,046,187 ct (Hall, 1969). Between discovery in 1932 and 1951 total production was over 11 million ct, almost entirely from the Kono alluvials.

After 1945 prospecting activities were renewed with particular attention being directed to the origin of the diamonds. This effort was rewarded in 1948 by the discovery of a set of kimberlite dykes in the Koidu area. These dykes were found in subsequent years to be part of a major kimberlite complex that included three small pipes and a total dyke strike length of around 200 km (Grantham and Allen, 1960; Hall, 1969; King, 1972).

3. 1952 to 1960. Artisan diamond boom.

In the early 1950s the first instances of illegal diamond mining ("IDM") were noted in the Kono area (Van der Laan, 1975; Hall, 1969). These early signs were to develop in the 1952-1955 period into a diamond rush that was of such magnitude that it not only changed the future of the Sierra Leonean diamond industry but also threatened to destabilise the whole country. The rise and the eventual control of this phenomenon is the main theme of this period which has been reviewed in detail by Van der Laan (1965).

It is generally argued that the impetus for IDM came from non-Sierra Leoneans, particularly from French West Africa (Hall, 1969). It is also apparent from arrests made that there was Lebanese involvement in this business at least as early as 1952 (Van der Laan, 1975). Even at an early stage the size of the business was substantial: one parcel seized in 1952 was valued at £60,000.

Initially, the IDM activities focussed on the SLST mining areas in Kono. By the end of 1954, however, there was a substantial increase in the areas where mining was taking place and an estimate was made that around 30,000 diggers were active and had produced diamonds valued at around £5.4 million in that year (van der Laan, 1965). Over the next year the number of diggers increased to possibly as much as 75,000 with serious negative effects on the rest of the Sierra Leonean economy. Rice production fell as farms were abandoned and prices generally rose higher than could be borne by the non-mining part of the population. A strike sponsored by the trades union movement in early 1955 precipitated rioting in Freetown in which 18 people died. Further disturbances followed in the provinces later in 1955 and early in 1956.

The gravity of the situation demanded action from both the government and SLST, whose reserves were being depleted. During 1955 a complete review of the situation resulted in a new agreement between the government and SLST. The essence of the agreement was two-fold: SLST was to confine its mining activities to two mining licence areas, and the remainder of the known diamond fields was to be opened to licensed mining by diggers. Shortly after these arrangements came into force in 1956 it was decided that all non-Sierra Leonean West Africans should be expelled from the Kono area. This action was coordinated with the French colonial authorities and supported by the chiefdom authorities in Kono and the Sierra Leonean political class. It was finally estimated that during a three week period as many as 45,000 people were expelled (van der Laan, 1965) although undoubtedly a number of them returned in 1957.

SLST was able to chose those areas where its prospecting had shown the best diamond resources to exist and mining licences were awarded covering (after some subsequent slight adjustment) 590 km2 in the Yengema/Koidu area and 210 km^2 in the Tongo area. The new mining licences were for a duration of 30 years and SLST received compensation of £1.57 million, this figure apparently being largely based on the estimated value of diamond resources outlined by SLST in the Bo District which they had been planning to bring into production (van der Laan, 1965). The agreement effectively tied SLST's future operations to the two mining leases. However, it did contain provision for wider prospecting in Sierra Leone by SLST, although they would only be permitted to take out mining licences for 'deep' deposits, that is those that were covered by at least 15' (*ca.* 4.5 m) of overburden. SLST/NDMC only eventually exercised this right (along the lower Sewa) in the mid-1970s when the existing alluvial reserves in the two mining leases were being depleted.

Shortly after the agreement was signed, SLST brought the Tongo deposits into production. Thereafter, for the next twenty years or so, SLST/NDMC production averaged around 750,000 ct per year. However, the SLST concessions were still plagued with theft and IDM and a significant Diamond Protection Force was maintained by the company. It may be noted that SLST's return on capital invested declined after this arrangement came into effect (Greenhalgh, 1985). It is not clear whether this was due to its loss of monopoly position in the country or to the depredations on its licences by IDM.

The Alluvial Diamond Mining Scheme ("ADMS") was introduced in February 1956. The scheme consisted of two parts. First was a system of licensing whereby artisan miners could obtain exclusive plots in return for nominal fees. A maximum of 20 'tributors' could be employed in any one plot by the holder of a licence. Second was the creation of an open diamond buying system which consisted of dealers' licences, which were valid for diamond trade within Sierra Leone, and exporters' licences. The objective of this second part of the system was to create an internal market for diamonds that would result in the channelling of the ADMS diamonds into legitimate hands and hence reduce or, ideally, stop smuggling.

The ADMS licensing system can be considered a major success. In 1956 there was a rapid take-up of licences and over the next 20 or so years the number of licences issued yearly typically numbered in the 2000 to 3000 range covering areas within more than 40 chiefdoms. The registered numbers of tributors working in these licence areas during this period was generally within the 25,000 to 40,000 range (Mines Department Annual Reports; Fairbairn, 1965). It is fair to say that until the 1990s this system of licensing was effective and very little IDM took place within the designated ADMS areas. The same, however, did not apply to the SLST mining leases that were plagued by IDM.

An issue with the artisan miners was access to capital. Increasingly this was being supplied by local Lebanese business people (Van der Laan, 1975) on essentially unfavourable terms to the diggers. In order to try to alleviate this problem in 1960 the American government made a grant of £50,000 (Le 100,000) to establish the American Aid Revolving Loan Fund ("AARLF"). This facility was very popular and provided such things as pumping equipment, screens and aqualung sets to licence holders. It operated through stores in Kenema and Bo and was administered by the Mines Department. The balance of the fund was invested by the Crown Agents. It has been estimated that between 1960 and 1970 the total cash sales and loans made by the AARLF into the ADMS was almost Le 1 million (Zack-Williams, 1995).

The diamond-buying arrangements for the ADMS production were initially less satisfactory. In 1956 buying and exporting were contracted to the Diamond Corporation (Sierra Leone) Ltd ("DCSL"), a subsidiary of De Beers, and to two banks although as the banks had no valuation experience or organisation, the arrangement gave an effective monopoly to DCSL. Diamond offices were established in various centres of the ADMS areas. However, it soon became apparent to diamond diggers and dealers that outside prices (e.g. in Liberia) were higher as DCSL included a margin of around 10-12% in their pricing. Consequently a large proportion of the production was still being smuggled and primarily poorer quality goods sold in Sierra Leone. In 1959, therefore, arrangements were changed and the Government Diamond Office ("GDO") was established, to be managed by the Diamond Corporation Ltd ("DICOR"), again a De Beers subsidiary. ADMS exports were exclusively through the GDO. DCSL lost its rights to export but remained as an internal buyer. Although DICOR managed the GDO it was not able to set the price book against which diamonds were valued for export. The board of the GDO, which contained independent members with diamond valuing experience, held this responsibility.

The new price book established by the GDO on its opening in August 1959 permitted higher diamond prices to be paid internally. The result was an upsurge in diamonds passing through the official channels. In the 23 months between August 1959 until June 1961, exports were valued at £21.5 million, compared to the total of £14.7 million worth of diamonds bought by DCSL in the preceding 42 months (Van der Laan, 1965).

The arrangements entered into in the latter part of the 1950s to cope with the diamond rush were to establish the outlines of the Sierra Leonean diamond industry for the next 30 years. The major benefits of these arrangements can be identified as the retention of a large formal mining sector which contributed substantially to government revenues and the organisation of the artisan mining sector in such a way that the majority of its production was channelled into official exports. Although this artisan mining sector contributed less to direct government revenues it had major economic spin-offs such as high employment and wealth distribution. Finally, the need for internal diamond buying to be at competitive prices was established.

The negative aspects of the arrangements were not to manifest themselves for some time. There was little to encourage the type of large-scale prospecting that was necessary to provide a longer life to an extractive industry. Also, the mining activities were carried out with almost no regard to their environmental impact. Finally, the relatively large sums of money that could be made in the artisan sector, when placed in juxtaposition with an underpaid and inefficient bureaucracy was to provide a fertile, and perhaps inevitable, breeding ground for corrupt practice.

4. 1961 to 1975. Heyday.

The creation of the ADMS in 1956 and the introduction of a more competitive diamond buying system in 1959, meant that a stable regime had been established for artisan mining which resulted in both high levels of production and official export. SLST also maintained the alluvial deposits at both Yengema and Tongo in production and through this period annual exports of diamonds from Sierra Leone were between typically 1 and 2 million carats. At this time the diamond industry was the mainstay of the Sierra Leonean economy.

A major development during this period was the direct participation by the government in the formal mining sector by its acquiring 51% of a new company, The National Diamond Mining Company (Sierra Leone) Ltd ("NDMC" or "DIMINCO") in September 1970. The other 49% was held by SLST who was to appoint management. SLST was compensated by receiving £2.55 million in interest-bearing bonds and NDMC also purchased, from its working capital, approximately £1.8 million of stores from SLST. It has been suggested that this was part of a long-term plan by then-Prime Minister Siaka Stevens to gain control of diamond production for his own ends (Smillie et al., 2000). However, this move must also be seen against the widespread nationalisation of mining (and other) companies throughout Africa in the late 1960s and 1970s and it need not be regarded as part of a 'master plan' for control of the national diamond industry.

Two main problems faced SLST/NDMC during this period: IDM within their mining leases and achieving acceptable marketing arrangements for their diamonds. Both issues were ultimately to precipitate the company's demise.

The problems associated with illicit mining in the SLST leases have been told in some (dramatic) detail by Harbottle (1976). Despite a Diamond Protection Force of up to 2000 people and the use of helicopters, IDM could not be controlled. The effects on SLST/NDMC were first a decision to limit prospecting and establishment of advanced reserves (which, once known, became an IDM target) and second to have the diamond resources of the leases depleted in a disorganised fashion, hence significantly reducing the life of the mine. As SLST/NDMC was a major contributor to government revenues, it was in the government's own interest to assist SLST/NDMC with this problem. However, by the latter part of the 1960s strong suspicion developed that the IDM was receiving covert backing at high levels in the government (Harbottle, 1976). Certainly, within Sierra Leone IDM in the SLST leases was not regarded as wrong, as there was a widespread belief that the diamonds were the property of Sierra Leoneans in the first place.

As part of its strategy to combat IDM, in the early 1960s SLST introduced a tributing system (the Contract Mining Scheme) in parts of its concessions where prospecting had identified diamond resources that were outside the current mining plan. In these areas African miners were given demarcated sites and the diamonds recovered were sold back to SLST. Up to 16 sites were in operation at any one time and as many as 700 people were employed in any one year. This scheme was largely discontinued in 1967 when some of the relevant parts of the concessions were relinquished to the ADMS.

Since the start of mining, SLST had sold its diamonds, on five-year contracts, through DICOR. In 1960 SLST refused to renew the contract, arguing that the 12% margin in DICOR's favour was too high. After negotiations with DICOR had broken down (Wharton-Tigar, 1987), in 1961 SLST signed a contract with Harry Winston Inc, the New York diamond trading company, which was willing to accept a 4% margin. This agreement was both beneficial to SLST and to the government (who would receive increased profits taxation) but in January 1962 the government of the newly independent country intervened, apparently in favour of DICOR (Wharton-Tigar, 1987). An act was introduced which extended the GDO's export monopoly of ADMS production to SLST production as well. Such an arrangement would have resulted in a better price than SLST had previously received from DICOR but a worse price than it was then receiving from Winstons. Further discussions ensued with the eventual establishment in July 1962 of the Diamond Marketing Rules covering the marketing of SLST production. In essence, the diamonds were independently valued by the GDO and 50% were exported by DICOR with the remaining 50% being exported by three American diamond trading companies: Harry Winston Inc (20%), Tempelsmans Inc (27%) and Lazare Kaplan and Sons Inc (3%).

At the time of the creation of NDMC, the government took the opportunity to vary the Diamond Marketing Rules. For reasons not clearly understood, it wished to introduce two additional exporters: Jamil Said Mohammed, a Sierra Leonean citizen of Afro-Lebanese parentage and IDC Ltd of London. Pressure was put on Winstons to give up part of their share, but rather than do this, they relinquished the whole and their percentage was divided up, with Jamil Said receiving 12% and IDC 8% (Koskoff, 1981). This was the first open indication that Jamil Said was to be favoured by the Siaka Stevens government.

In March 1974 a further change occurred in the export of production from the ADMS. Under a new Diamond Marketing Arrangement the GDO lost its monopoly and export licences were issued to six companies. The ostensible reason for this change was apparently to increase competition in the diamond market but it may be noted that one of the six companies that received an export licence was that of Jamil Said.

5. 1976 to 1990. Decline and fall.

It is difficult to place an exact date on the beginning of this period as no single event occurred that marked the start of the steady decline in official diamond exports from Sierra Leone. However, 1975 was the last year in which diamond exports were registered at over 1,000,000 ct and by the early 1980s exports were running at only around 300,000 ct per year. This clear negative trend was reflected in both NDMC and ADMS productions with the NDMC downward trend apparently becoming established earlier. The most important theme of this period is the steady acquisition of control over diamond marketing and formal mining by a limited number of people, prime among whom were Jamil Said and his associates who were reputed to be closely associated with Siaka Stevens, the President of Sierra Leone until 1985.

In 1980 the Selection Trust company was taken over by British Petroleum to become part of BP Minerals International Ltd ("BP Minerals"). This meant that ownership of SLST, and hence 49% of NDMC, was now with BP Minerals. It was recognised at this stage that the future for NDMC was not in the alluvial deposits but in development of the kimberlite deposits, surface mining of which had commenced in a small way in 1978. However, the major investments necessary for underground development were not forthcoming, apparently for two reasons. First was the major uncertainty in the diamond market during the early 1980s when, following a major boom in diamond prices in 1979-80, a crash ensued. In these market conditions DICORWAF was unwilling to enter into the long-term contract that would be necessary to underpin the financing of the new mine. Second was the poor structure of NDMC, whereby BP Minerals, the minority partner, would be required to fund the whole of the capital investment. BP Minerals, who had no history of involvement in the diamond industry and for whom the kimberlite mine was a relatively small affair, rapidly became disenchanted with Sierra Leone and started looking for an exit.

In August 1984 a private Sierra Leonean company, the Precious Minerals Marketing Company (SL) Ltd ("PMMC") was formed. The government held 35% of the shares, Jamil Said and Tony Yazbeck (a Lebanese businessman) each held 15% and the balance of 35% was held by 46 individuals and companies (Greenhalgh, 1985). The objectives of the company were to mine, market and export gold and diamonds.

Initially, PMMC was granted an exclusive right to export the diamonds produced under the ADMS. However, very shortly it negotiated an agreement with BP Minerals to purchase SLST that is to acquire the 49% of NDMC not owned by the government. This was done for a total of US$8.5 million. PMMC also negotiated a management contract with NDMC that put them in control of its operations. There then occurred a period in which NDMC was effectively asset stripped and the operations largely run into the ground. The only significant capital invested in the business was a consignment of assorted earth-moving equipment initially shipped to Sierra Leone by Mr Bin Rafah, a Saudi businessman, for a gold project. This equipment, with a likely market value of $3.5 million was billed to NDMC at $11.5 million. Diamond security was completely compromised and even the diamond assortment retained for valuation purposes was sold. Experienced staff left or were sacked. Production in 1986 was 62,000 ct, the lowest since 1934.

The Diamond Marketing Rules established in 1962 for the marketing of SLST/NDMC production were set aside and PMMC gained exclusive marketing rights. At this time the chairman of PMMC was also the chairman of the GDO, removing independent oversight of diamond export amounts and values. Diamond sales were so poorly documented that the company's auditors (Peat Marwick) refused to sign the accounts for the year 1984/85 (Momoh, 1988a). In effect NDMC was being run for the benefit of PMMC and its shareholders and not at all for either its own long-term future or to the advantage of the country.

President Momoh took over from President Stevens in November 1985. One of the early acts of the Momoh presidency was to establish the Government Gold and Diamond Office ("GGDO"), an agency charged with buying and exporting gold and diamonds. The motivation for this move appears principally to have been to ease the foreign exchange problems being experienced in the economy as a whole. Initially, the GGDO appears to have been relatively inactive.

In July 1986, Momoh took action against PMMC, suspending its management contract with NDMC. This necessary action was too late, however, and NDMC was essentially a broken and ineffective organisation saddled with major liabilities (such as the Bin Rafah credit). During the next several years it received various expressions of interest (e.g. Sumatu Raygreen/Frontier Trading, DICORWAF, Dar Tadine Al Umma, Outokumpu; Sunshine Mining) for the necessary investment to revive its alluvial diamond mining operations or to start the kimberlite mine. It is notable that almost all of these companies had no previous experience in diamond mining or marketing, and for various reasons the proposed schemes failed.

During this period artisan mining under the ADMS continued although, as mentioned, production steadily declined. Because of smuggling (Appendix J), the actual production figures are unknowable, but in the mid 1970s the leone was tied to the pound Sterling and hence acceptable as a hard currency. The attractions of US dollars in Liberia were hence less and diamonds smuggled into Sierra Leone from Guinea (where artisan diamond mining was outlawed) could be paid for in US dollars (Koskoff, 1981). However, in 1978 the leone was detached from the pound and, following devaluation, was valued against IMF Special Drawing Rights. However, since this period the leone has shown perennial weakness with a series of devaluations leading to eventual flotation in 1986. For most of this period diamond buying should have been in leones and in an economic environment of high local inflation, a soft currency and a declining economy, this was a major incentive to smuggle diamonds either to Liberia or to Europe where hard currency could be obtained.

The economic situation in the country became so difficult that in November 1987 Economic Emergency legislation was introduced. In the diamond sector this resulted in the GGDO exercising its monopoly on diamond buying (in leones) and exporting. GGDO diamond sales were by means of auctions but the quantities of diamonds being offered at each auction (totals in the range of 4800 ct to 11,000 ct) were too small to attract strong buyers and the best prices. Smuggling continued to be the favoured route whereby the diamond trade functioned (see Appendix J). The banking situation was particularly critical as public confidence had been lost and banks, for example, could be so short of physical leones that they could not pay out on legitimate transactions.

In June 1988 DICORWAF left Sierra Leone, terminating a relationship that had started in 1956. They stated that they had done no meaningful business since 1983 and that the export monopoly granted to the GGDO meant that they did not anticipate that they would have any future role.

Eventually, in 1989, a new Diamond Mining and Marketing Policy was brought in. The objectives of this policy were to open up the diamond marketing sector to competition, to attempt to channel foreign exchange through the banking system, to promote cooperative rather than 'individual' mining and to rehabilitate mined areas. Diamond dealers and exporters were to achieve minimum levels of performance (for example a holder of an export licence should export an average of US$500,000 per month). Diamond buying continued to be in leones but exporters had to deposit 60% of their export proceeds in advance in foreign currency to the Bank of Sierra Leone.

These measures were neither well designed to combat smuggling nor to encourage legitimate internal diamond trade. They did attract a number of outside buying companies (particularly from Israel) but a significant feature of the business at this time was the parallel acquisition of local currency. This involved the importation of some form of 'essential' goods (such as rice or petroleum products) for which the importer was paid in leones at an advantageous (non-market) rate. The leones were then used to purchase diamonds at above-market prices when compared to prices calculated using the official exchange rate. Because the goods being imported into the country were in critical short supply, the government in certain cases would acquiesce in this system by making leones available to the importer. Most of the diamonds purchased in this manner were then smuggled out of the country leaving only a small 'official' export to confirm the licence-holder's status. However, it is apparent that when such a system is in operation licensees who tried to operate through the official channels could not compete.

By the end of this period the official diamond trade in Sierra Leone was greatly diminished compared to 15 years previously. NDMC had effectively ceased to exist and official exports were, in some years, less than 100,000 ct. The industry, which had once contributed so much to Sierra Leone's export earnings, government revenues and had been the mainstay of the economy, now contributed almost nothing. The reasons for this can be summarised as pervasive corruption within the industry for the ultimate gain of a small circle of intimates compounded by misguided government policies which did little to ease the proper functioning of either the internal or the external diamond market. Since it seems likely that senior members of the government were implicated in the corruption of the industry, the lack of effective government policy is hardly surprising.

6. 1991 to 2000. Collapse and the appearance of 'conflict' diamonds.

Developments in the diamond industry during the last ten years must be set against the acute political instability in Sierra Leone of this period. It has also been argued that the prior developments in the diamond industry themselves contributed to this instability (Smillie et al., 2000). It is not intended to review the political events of this period in detail but a time-line of key events should be noted. In March 1991, Foday Sankoh led a disparate group of 'rebels' into southern Sierra Leone from Liberia, apparently with the assistance of Charles Taylor, Liberian President. No coherent political platform was being advocated and atrocities were committed. In 1992 a small group of disaffected Sierra Leonean soldiers went to demonstrate about their poor conditions and, discovering that President Momoh had fled, staged an impromptu coup, with Valentine Strasser being named President at the head of the National Provisional Ruling Council ("NPRC"). In 1994, the now-termed Revolutionary United Front ("RUF") overran the main diamond producing areas and, for the first time, had access to significant economic resources. In 1995, the NPRC government, having lost control of much of the country, contracted the paramilitary group Executive Outcomes to re-take the main diamond fields. In 1996, following a military coup that overthrew the NPRC, President Kabbah won elections and signed a peace accord with the RUF. In 1997, however, a further military uprising took place in Freetown and President Kabbah went into exile. Johnny Paul Koroma's Armed Forces Revolutionary Council ("AFRC") assumed power in Freetown and latterly formed an alliance with the RUF. Control of the main diamond fields returned to the RUF and diamond mining and trading appears from at least this time to be a major motivation for this grouping. This RUF/AFRC alliance was marked by atrocities and the collapse of the formal economy. In 1998, Nigerian troops, as part of an Ecowas force (ECOMOG), retook Freetown amid substantial bloodshed and re-instated President Kabbah. ECOMOG then battled to retake much of the country. In January 1999, however, the AFRC elements re-entered Freetown bent on murder, larceny and terror. Thousands were killed or had limbs amputated before the ECOMOG force once again retook the city. Following elections in Nigeria, it was decided that the Nigerian troops (the mainstay of the ECOMOG force) should be repatriated. They were replaced by an UN-mandated force ("UNAMSIL") as a consequence of the Lomé Peace Accord, which was signed between the government and the RUF in July 1999. The deployment in early 2000 of poorly prepared UNAMSIL troops in the interior became a farce as hundreds were captured and disarmed by the RUF. The British sent in troops independently of the UN to stabilise the situation and forestall an impending RUF return to Freetown. Since then, the situation has quietened and in 2001 the RUF (along with other combatant factions) has agreed to disarm.

Against this highly unstable background two major developments, the one in complete contrast to the other, can be identified within the diamond industry. The first was the introduction of a new Mining Law which had as its goal the rational development of the diamond (and other mineral) resources of the country. The second was the emergence of what became known as 'conflict diamonds', that is the illegal exploitation of diamond resources to finance the activities of the RUF and its backers. It may even be the case that latterly the RUF primarily became a front to permit the illegal extraction of the diamonds.

At the beginning of this period the government was presented with the problem of what to do with NDMC. The company was essentially bankrupt but held title to the kimberlite resources that were considered to have substantial future potential for diamond production (e.g. based on the Outokumpu feasibility study). The first step taken by the NPRC government was to completely nationalise the company in 1992. However, as this still did not provide an attractive vehicle for future investment, the company was liquidated in 1993. In this manner unencumbered licences could be awarded for the kimberlite mining projects.

The new Mining Law was initially introduced as a decree of the NPRC in 1994 and was subsequently passed into law as the Mines and Minerals Act of 1996. This act created a Minerals Board, which, generally, has the duty to oversee, regulate and promote the minerals industry in Sierra Leone (Appendix B). The act provided generally for large-scale formal sector prospecting and mining as well as artisan mining. The provisions for artisan mining were broadly similar to those that applied under the ADMS but somewhat larger operations were apparently envisaged, with larger licence areas and a greater number of tributors by licence being possible.

One of the objectives of the new law was to make Sierra Leone attractive to foreign investment and at this period there was a major boom in worldwide mineral exploration with a particular focus on diamond as a mineral. Unfortunately, the unstable political situation in Sierra Leone discouraged all but a certain type of investor who could be characterised as tolerant of high risk and looking for commensurate reward. The only major exception to this was De Beers' exploration for offshore diamond deposits. Nonetheless, a significant number of junior mining and exploration companies entered the country, generally during the 1995-97 period. However, renewed outbreaks of violence caused them to halt operations before any had achieved significant results and all subsequently ceased activities. A number of these companies have maintained their licences under *force majeure* terms and can be expected to return, whilst others have apparently given up.

As part of the Lomé Peace Accord, a Commission for the Management of Strategic Resources, National Reconstruction and Development ("CMRRD") was established with Foday Sankoh (RUF leader) as its Chairman. As this Commission was not foreseen in the Mining and Minerals Act 1996, its basis in law is unclear (Appendix B). The CMRRD never met as a body but during the 1999/2000 period when he was in Freetown, Sankoh apparently worked in 'parallel' to the Ministry of Mineral Resources, discussing diamond mining and marketing projects with various parties (UN Panel of Experts on Sierra Leone Diamonds and Arms, 2000).

From perhaps around 1995 onwards it became increasingly apparent that the RUF was using diamonds to fund acquisition of arms and hence prolong its reign of terror. This, together with the roughly parallel situation in Angola, came to be the 'conflict diamonds' issue, highlighted by such as Global Witness (2000) and Partnership Africa Canada (Smillie *et al*., 2000). The issue has resulted in a number of initiatives from United Nations sanctions (e.g. Security Council Resolutions 1306 and 1343) to diamond industry resolutions and regulations (*cf.* De Beers, 2000; WDC, 2001; HRD, 2001), Certificate of Origin schemes and the Kimberley Process (United Nations General Assembly Resolution 55/56) discussed elsewhere in this report (Appendix C).

During the 10 years since the outbreak of civil war, the diamond industry in Sierra Leone has almost ceased to contribute any revenue to the government. Official exports fell below 10,000 ct in 1999 with almost the entirety of the country's production being smuggled. The highly unstable security and political situation has ensured that there have been no new significant investments in the industry.

Appendix B

Existing Regime for Diamond Mining, Dealing and Export

1. Introduction.

The principal legislation governing activities in Sierra Leone's diamond sector is the Mines and Minerals Act of 1996 ("the Act"). This has been supplemented by the (undated) "Details of New Policy Measures relating to Small Scale and Artisanal Mining and Marketing of Precious Minerals" (referred to below as "New Policy Measures") which is a combination of regulations relating to matters in the Mines and Minerals Act and certain new elements of legislation relating to the informal diamond mining sector. The Government Gold and Diamond Office ("GGDO") was established and operates under the "New Arrangements to Facilitate Repatriation of Export Proceeds of Gold and Diamonds" of December 1985. Additional relevant legislation is contained within the Environment Protection Act of 2000 and the Income Tax Act 2000.

The administration and regulation of the affairs of the diamond industry are principally carried out by the Ministry for Mineral Resources.

2. Legislative framework.

2.1 Outline of legislation.

The Mines and Minerals Act (and accompanying regulations) applies to all mines and minerals within Sierra Leone and therefore has a broader scope than the diamond industry itself. Key issues for the diamond industry that the Act and associated legislation and regulations identify are as follows.

- Minerals are the property of the state and prospecting, exploration or extraction of any mineral can only be carried out within the terms of licences issued by the government for that purpose. Rough diamonds can only be traded internally or exported with appropriate licences and it is a criminal offence to do otherwise.

- A distinction is made between an 'informal' or Artisan mining sector and a formal mining sector. According to the Act, the Artisan mining sector is only open to 'citizens of Sierra Leonean origin and nationality' or to Sierra Leonean companies or cooperatives. However, the "New Policy Measures" has introduced the concept of a "small-scale mining licence" which, although broadly within the informal sector, has elements of the more formal sector whereby larger areas may be licenced and only a minimum 25% Sierra Leonean involvement is required for participation in the sector.

- There is legislative exclusivity between the informal and the formal mining sectors whereby licences pertaining to one type cannot be awarded in areas where a licence pertaining to the other type is current. The Minister of Mineral Resources is empowered to declare certain areas as being Small-Scale and Artisanal Diamond Mining Areas.

- For the formal mining sector there is a gradation in mineral rights from non-exclusive reconnaissance prospecting to exclusive prospecting to exclusive exploration rights. Mining rights are assured following prospecting/exploration provided that the terms of the Act have been followed. Mining licences are awarded for periods of up to 25 years in the first instance with subsequent renewal. Both the initial award and renewal are dependent upon submission of specified geological, mineral resource, mining, economic and environmental studies.

- A range of licence fees, rentals, royalties and other taxes are specified in the appropriate legislation, as are certain tax exemptions.

- According to the Act, the Minister of Mineral Resources is empowered to make orders limiting the access of persons to certain mining areas or certain towns or villages should this be required for the efficient operation of the mining industry.

- The GGDO has been established with the purpose of valuing and exporting diamonds and gold. It currently operates as a valuation office whereby all diamond exports are subject both to valuation and accreditation through the Certification of Origin scheme. No diamonds can be exported from Sierra Leone without a Certificate of Origin.

- Dealing in diamonds within Sierra Leone and export of diamonds from the country are by means of licences issued by the Ministry of Mineral Resources. The Act and accompanying regulations establish the basis on which such licences can be issued as well as the fee structure and tax regime for trading in diamonds.

- The Act provides for the Geological Survey and gives a statement of its responsibilities.

2.2 Underlying policy.

The policies that are understood to underlie the current diamond mining and trading legislation and regulations can be summarised as follows.

- The formal mining sector is open to all parties who have the requisite technical and financial resources. Foreign investment is encouraged. Security of tenure from prospecting through exploration to mining is assured. Prospecting and exploration licences are awarded on a first-come, first-served basis.
- The informal mining sector must be carried out with significant Sierra Leonean national participation, either by individuals, companies or cooperatives.
- All exploration and mining activities must be carried out on the basis of a licensing system administered and regulated through the Ministry of Mineral Resources. This licensing system imposes health and safety, environmental, good mining practice and reporting responsibilities on licensees. Penalties are prescribed for infringements of the terms of the licences.
- Diamond dealing is open to all parties with the requisite financial resources. There is no specific limitation on the basis of citizenship although the licence fee structure gives an advantage to citizens of Sierra Leone.
- Diamond exporting is limited to a number of export groups representing major diamond importing countries (e.g. Belgium, Israel, United States). All exports must be verified and valued by the GGDO.
- All diamond dealers, exporters and agents operate on the basis of a licensing system administered and regulated through the Ministry of Mineral Resources.
- The principal method whereby diamond prices are set in Sierra Leone is competition between the various dealers and exporters. An independent valuator provides a secondary check on the export value.
- Diamond exports are to be in conformity with United Nations Security Council resolution 1306 that is via the Certificate of Origin scheme.
- There is a tendency in the legislation and regulations to favour 'citizens of Sierra Leonean nationality and origin'.
- Both formal and informal mining activities should respect the environment, either through rehabilitation schemes or payment of prescribed fees.

3. Organisational framework.

According to the Act, the Ministry of Mineral Resources, operating through a Minerals Board, is charged with the administration and regulation of activities in the diamond industry. The GGDO, however, has an independent existence having been established by a separate piece of legislation and having its own Board. To carry out its duties, the Ministry has three divisions, Administration, Mines and the Geological Survey. Their respective roles can be summarised as follows.

- The Administration Division is responsible for the running of the Ministry and policy formulation. It also incorporates the Mines Monitoring Unit.
- The Mines Division is responsible for licensing and administration of exploration and mining rights, monitoring compliance with work or expenditure requirements and health and safety. The Division is also responsible for overseeing artisanal mining activities and providing appropriate technical assistance.
- The Geological Survey Division is responsible for the geological mapping of Sierra Leone, the collection, compilation, publication and dissemination of all types of information concerning the geology and mineral resources of the country. It is responsible for the promotion of Sierra Leone to the international mining industry.
- The GGDO is responsible for the monitoring and valuation of diamond exports and to ensure that diamond exports comply with the Certificate of Origin Scheme.

It is apparent that there are significant shortcomings in both the material resources and the level of training of available personnel for the various divisions in the Ministry. It is consequently apparent that the various responsibilities of the divisions are not being fulfilled. This subject is substantially beyond the remit of this study but it may be noted that these inadequacies will be detrimental to the proper functioning of the diamond industry. Examples are:

- A limited data collection and synthesis capacity in support of the documentation trail from mine to export that is required by the Certificate of Origin scheme.
- Poor infrastructure for the GGDO which has implications both for security and for its capacity to process shipments.
- Poor promotion of the potential of Sierra Leone for diamond exploration and mining. This is compounded by a poor image presented to potential investors visiting the country, which acts as a disincentive to the better quality companies in both the mining and the diamond trading sectors.

- Limited capacity to monitor diamond mining and trading activities to ensure compliance with licence conditions.

In recent years a number of proposals have been drawn up for institutional renovation and support through such as the World Bank and the European Union. None of these proposals has been acted upon. It has also become apparent during interviews for this study that there is a willingness in certain parts of the private sector to provide technical assistance to the Ministry and the GGDO. It would undoubtedly be of benefit to the diamond industry were such assistance to be sought and implemented.

4. Note on the Lomé Peace Accord.

The Lomé Peace Accord (the "Accord") was signed in July 1999 by the Government of Sierra Leone and the Revolutionary United Front ("RUF"). At the time it was envisaged that the Accord would provide a basis for the peaceful resolution of the internal fighting and a resumption of normal society within Sierra Leone.

The Accord contained a number of radical proposals (Article VII) for management of Strategic Resources (i.e. including diamond mining and dealing). This involved the creation of an autonomous body, the Commission for the Management of Strategic Resources, National Reconstruction and Development ("CMRRD"), which was to have the responsibility *(inter alia)* of securing and monitoring the legitimate exploitation of Sierra Leone's gold and diamonds. The CMRRD would therefore usurp many of the key functions of the Ministry of Mineral Resources. Moreover, the CMRRD was to be chaired by the leader of the RUF. A part of these proposals was also that all previous mineral concessions were to be declared null and void. In signing the Accord the government undertook to introduce the necessary legislation to implement its provisions.

In May 2000, the RUF resumed paramilitary activities and as a consequence it is understood that the Accord is regarded as null and void. It is further understood that none of the terms of the Accord were enacted into legislation.

5. United Nations sanctions.

On 5th July 2000 the United Nations Security Council adopted Resolution 1306 (2000) which prohibited the direct or indirect export of all rough diamonds from Sierra Leone. This was in response to evidence that rough diamonds were being used by the RUF to finance the purchase of arms and hence to prolong the conflict in Sierra Leone. This prohibition was to remain in force until an acceptable Certificate of Origin scheme was introduced to ensure that diamonds exported from Sierra Leone under such a scheme were legitimate and not contributing to RUF rebel activities.

In conjunction with the Belgian Diamond High Council ("HRD"), the Sierra Leone government developed a Certificate of Origin scheme for diamond exports which proved acceptable to the United Nations Sierra Leone Sanctions Committee. The embargo on Sierra Leonean diamond exports was therefore lifted on 6th October 2000. Since then, all official diamond exports from Sierra Leone have been accompanied by Certificates of Origin.

6. Overview.

The legislative framework covers all the necessary issues to provide a workable diamond industry in Sierra Leone. However, a number of issues may be highlighted as requiring clarification or amplification.

- There is a potential problem at the interface between the formal and the informal mining sector. Legislatively, the two are exclusive. However, such exclusivity may give rise to certain problems. For example, it acts to discourage formal sector exploration in the declared artisan mining areas, although these areas hold significant potential for the discovery of primary diamond resources. In contrast, where exclusive exploration rights are held by the formal sector, artisan mining rights cannot be awarded with the potential that illegal mining will result. This potential is clearly highest in the Kono and Tongo areas but could equally apply elsewhere should significant discoveries be made. Small Mining licensees with the implied ability to mine at greater rates and to greater depths than traditional Artisan miners add to this problem.
- There is also lack of clarity in the legislation covering relations between the holders of mining permits (whether formal or informal sector) and the indigenous populations. These relations are presently addressed through the need for permission for access, the legislative possibility of rentals and such as the Community Development Fund. Environmental legislation also requires the impact on the indigenous populations of any formal sector mining development to be assessed and identified problems addressed.
- Since the Act came into force in 1996 there have been significant, essentially *ad hoc*, additions to the legislation. Notable among these are (a) the Certificate of Origin scheme for diamond exporting; (b) the start of the Community Development Fund; and (c) the introduction of the concept of a Small Mining Licence to complement the existing Artisan Mining Licence. The establishment of the GGDO outside the Act has also been noted.

- Responsibilities for compliance with legislation relating to diamond possession, trading and export are split between the Sierra Leone police, the Mines Monitors of the Ministry and Customs and Excise (see also Appendix I). The Mines Monitors have a low level of qualification and training, yet they have powers of detention and confiscation. It does not appear that there is any formal basis for contact between the two organisations and no common collection of information or sharing of intelligence.

- There is a clear problem with regard to nationality and citizenship, an issue that extends beyond the scope of the present report. However, it may be noted that there are three, possibly four, categories of person alluded to in the legislation: (a) Sierra Leone citizens (who may or may not all come within the category of "citizens of Sierra Leone origin and nationality"); (b) ECOWAS citizens; and (c) citizens of neither Sierra Leone nor ECOWAS. At various points in the legislation these categories of person are treated differently. The issue is also complicated by persons who are of dual nationality (i.e. of Sierra Leonean and one other nationality).

Appendix C

International Context

1. Introduction.

Historically, the diamond industry has been international in nature with the diamond world divided geographically between countries that produce diamonds (e.g. Sierra Leone, DRC, Botswana), those in which diamonds are manufactured (i.e. cut and polished) (e.g. Belgium, Israel, India) and those in which diamonds (in the form of jewellery) have been consumed (e.g. USA, Japan). Only a relatively few diamond mining countries have attempted to develop a significant diamond manufacturing industry (e.g. Russia, South Africa) and there are typically only small and specialised manufacturing industries in the major consuming countries. A consequence is that the great majority of the ultimate consumers of diamond jewellery have been largely ignorant of the origin of their diamonds and of the complex pipeline from producer to consumer.

In recent years, however, human rights groups (such as Global Witness (1999; 2000) and Partnership Africa Canada (Smillie *et al*., 2000)) have drawn attention of consumers to the role that diamonds may be playing in the funding of brutal wars in Africa as well as the possible involvement of indentured and/or child labour in diamond production and manufacturing. A consumer-based campaign on such issues would have significant potential for the disruption of the diamond trade, the great majority of which is legitimate and of fundamental economic importance to a number of states. Consequently, diamond producing and manufacturing countries and trade organisations initiated a process whereby the trade could become better regulated and more transparent and by such means the illegitimate miners and traders could be squeezed.

The actions taken by participants in the diamond trade were initially individual or by ad hoc groups. Increasingly, however, there has been coalescence around the Kimberley Process. The Kimberley Process is named after an initial meeting of interested states and other parties, which was convened by the South African Government, in Kimberley in May 2000 and it has received full international recognition through the United Nations General Assembly Resolution 55/56.

2. Kimberley Process.

The Kimberley Process is essentially a voluntary grouping of countries and other interested parties with substantial involvement in the international trade in rough diamonds with the objective of establishing a globally applicable certification scheme for the trade in rough diamonds. The final details of such a scheme are currently being elaborated with a view to submitting a report detailing the scheme to the 56th Session of the United Nations General Assembly (i.e. the current session).

The key elements of the certification scheme are: that rough diamonds are only shipped in a uniquely identified, tamperproof manner; that the diamond parcel being shipped has verifiable contents; and that verification as to their receipt intact following shipment is done by both electronic and physical means. The authority initiating the shipment implicitly undertakes to ensure that it does not contain any 'conflict' diamonds.

To date the Kimberley Process has produced a series of draft recommendations to participating countries for internal controls on their diamond trade (Anon, 2001).

General recommendations are:

- To issue pertinent disclosure rules for financial institutions and insurance companies.
- To introduce 'fair practice' regulations or codes.
- To require regular auditing that takes fully into account the characteristics of the production, trade, handling, storage and processing of rough diamonds.
- To empower courts or other competent authorities to order that bank, financial or commercial records be made available or be seized in case of suspect transactions in rough diamonds (and not to decline to act on the ground of bank secrecy).
- To allow only properly licensed diamond individuals, companies or entities to engage in production, national and international trade of rough diamonds and other directly related activities.
- To issue licences only to natural or legal persons or entities that pass the relevant security checks.
- To establish an international register of all properly licensed diamond producers and traders (national and international).
- To establish a list of individuals, companies or entities convicted of illicit diamond activity during the last 10 years.
- To introduce the possibility of disqualifying by court order or any appropriate means for a reasonable period of time persons convicted of violations of the provisions of this scheme

from engaging in rough diamond related activities.

- Diamond production recommendations are:
- To aim to obtain an ISO certification of production sites.
- To require all diamond buying offices to keep proper records (computerised if possible) of their purchases and sales.
- To publish known and suspected areas of conflict diamond mining.

In addition, participating countries undertake:

- To keep all other participants and the Kimberley Process secretariat fully informed about the laws, regulations, rules, procedures and practices that are applicable within a country's territory and with respect to the absence of conflict diamonds from the production, transport, trading, mixing, sorting, handling or processing of other rough diamonds.
- To provide to all other participants and the Kimberley Process secretariat a copy of these laws, regulations, rules, procedures or practices in the original language and in an authorised translation into English.
- Without prejudice to the protection of commercially sensitive information, to inform all other participants of the relevant statistical data on production and international trade.
- It is possible that these draft recommendations will be modified in the final scheme.

3. Sierra Leone's Certificate of Origin scheme and the Kimberley Process.

Sierra Leone is a full participant in the Kimberley Process. Indeed, due to the imposition of United Nations sanctions on diamond exports from Sierra Leone in 2000 (Appendix B) Sierra Leone became the second country (after Angola) to introduce a Certificate of Origin scheme for the export of diamonds (in October 2000). The essentials of this Certificate of Origin scheme for Sierra Leone, which was designed and implemented in conjunction with the HRD, are the same as those that underlie the proposed Kimberley Process Certificates for rough diamond trading. The Certificate of Origin scheme for Sierra Leone is administered through the GGDO and the key elements of the system are as follows.

Rough Diamond Export Controls.

- All rough diamonds for export are sealed in a transparent, tamperproof security bag by a GGDO official.

- The sealed security bag includes a fully visible Certificate of Origin that has a unique export registration number, total carat weight and total export value (in US$) of the rough shipment. The Certificate is signed by the GGDO manager, the Minister of Mineral Resources, the Governor of the Bank of Sierra Leone and the Customs and Excise authority.
- The shipment data (registration number, total carat weight and total export value of the rough) are recorded in the GGDO computer system together with pictures of the diamond parcels. These data are transmitted electronically to the relevant corresponding importing country's authorities.

Rough Diamond Import Controls (at corresponding import countries)

- Only sealed containers of rough diamonds accompanied by a Certificate of Origin originating from Sierra Leone may be imported by any country.
- The importing country must be able to verify the data on the export document by electronic or other reliable means.
- Sealed containers of rough diamonds are subject to inspection by the authorities.
- The audit trail relating to specific diamond shipments is completed by the authorities in the importing countries, first, by confirming electronically that the intact shipment has been received, and secondly, by returning the counterfoil from the Certificate of Origin to the GGDO.

Since October 2000, all legal exports from Sierra Leone have been accompanied by Certificates of Origin. During this period there has also been a steady increase in official exports which may, at least in part, be attributed to the scheme. Such a conclusion would be supported by the discussions with various diamond trade representatives who broadly welcomed the scheme and were happy to participate within it. However, the rise in official diamond exports during this same period can also be attributed to the steady increase in the number of licensed diggers as well as the increasing ease with which diamonds could be transported to Freetown. During this period it is understood that members of the Lebanese community who are strongly involved in the diamond trade voluntarily resolved to work within the system as a contribution to the Sierra Leonean national recovery effort.

As part of the Kimberley Process, Global Witness (2001), an NGO with an interest in conflict diamonds, was asked to review the workings of the Certificate of Origin scheme in Sierra Leone. They concluded that the scheme was broadly working and they made a number of recommendations. However, none of their recommendations was of a fundamental nature concerning the operation of the scheme.

As a consequence of discussions and a visit to the GGDO for this study a number of comments can be made on the operation of the Certificate of Origin scheme.

- The requirement for four signatures on a Certificate is not only over-bureaucratic but appears very frequently to lead to delays in diamond export. This is a matter of significant concern to diamond exporters (who may have substantial sums of money tied up) and was commented on by almost all those interviewed. It is understood that the government is addressing this problem and the rules are to be modified such that a Certificate will be valid with only two of the four signatures.
- At the time of this study, only two countries (Belgium and Israel) were full corresponding members of the scheme (i.e. were electronically linked using the necessary software to the GGDO offices). However, diamond shipments have been exported to other locations such as the USA and Japan. The audit trail was reported as being completed from these other centres on a voluntary basis, although all counterfoils from the Certificates of Origin had not been received in Freetown. On a strict interpretation, it seems possible that such exports (and imports) would be infringements of the United Nations sanctions as defined in Security Council Resolution 1306 (cf. USAID/OTI, 2001). It is not considered that there is any wilfulness involved and this matter will doubtless be resolved within the Kimberley Process.
- Blank Certificates of Origin were not held in a secure manner in the GGDO. Clearly such certificates have a potentially high monetary value. This lack of security is in part a consequence of the poor facilities from which the GGDO works but the administration of the office could be improved.
- Between October 2000 and the end of June 2001 a total of 101 Certificates of Origin had been issued. Nine of these had been ‘cancelled’, that is a certificate had been partly used and then the shipment not made on that certificate. It is considered that this is a high rate of ‘wastage’ and that too high a rate of cancellations of certificates will tend to reduce the importance of certification in the minds of the operators of the scheme to its long-term detriment. It is suggested that where a certificate is cancelled then the reason(s) for the cancellation should be recorded electronically and, ultimately, submitted to the Kimberley Process secretariat.

4. Conclusions.

As one of the originators of a Certificate of Origin scheme and as a full participant in the Kimberley Process, Sierra Leone's diamond exports should have no significant problems in conforming to the final scheme to emerge from the Kimberley Process. Certain conclusions may be relevant to this study.

- The various rules and regulations concerning the application and operation of Kimberley Process Certificates (once agreed with the United Nations) could be directly incorporated into Sierra Leonean law.
- A booklet describing the system and diamond exporting rules and regulations could be compiled for the use of the participants in the system.
- The GGDO premises could be improved and better security protocols and administration procedures in the offices introduced.
- In line with the Kimberley Process draft recommendations: (a) a 'good practice' code should be introduced; (b) all licensed participants (individuals and companies) in the diamond trade should be vetted and a list produced of any involved in illicit diamond activities in the last ten years; (c) none of those who fail a security check should be permitted to hold a licence in the Sierra Leone diamond industry; (d) a law should be introduced to disqualify for an appropriate period those who may infringe the Kimberley Process scheme.
- The Kimberley Process draft recommendation that production sites should aim to become ISO accredited appears entirely unrealistic in an artisan mining setting.

Appendix D

Potential for Diamond Mining in Sierra Leone in the Future

1. Introduction.

In order to understand the future contribution that the diamond industry can make to Sierra Leone, it is necessary to consider the likely future production potential of the country's diamond resources. There are no recent detailed national studies that are relevant to this issue, the last such being Hall (1969). In that study, the total diamond resource (without consideration of payability) outside the SLST leases was put at 16.6 million carats in 1965. No precise figures were given for SLST resources, but the report implies that these were considered by Hall to be in the 6.5 million to 9 million carat range, apparently excluding the kimberlites. Since 1965, official production has been approximately 25 million carats and significant additional quantities have been smuggled. Hall's figures, although they appeared ambitious to some when published, were clearly underestimates.

An attempt is made below to summarise the known potential of the Sierra Leone fields. This potential exists in three areas: the established diamond resources in kimberlites; the poorly documented but undoubtedly real alluvial resources; and the exploration potential.

2. Diamond resources in kimberlites.

Kimberlites with diamond resources are presently known in two areas in Sierra Leone: Koidu and Tongo. At Koidu there is an extensive and complex kimberlite system consisting of three small pipes and an intricate suite of kimberlite dykes (King, 1972). At Tongo there is a suite of kimberlite dykes (Hall, 1969). Most work has been carried out in the Koidu area where drilling, underground sampling and open-pit mining have taken place and based on which diamond resources have been defined. At Tongo some drilling and near-surface sampling have taken place which has permitted the diamond resources to be defined with rather less confidence than at Koidu. At present the greater part of the Koidu kimberlite complex is held on licence by DiamondWorks Ltd with a lesser part held by Amcan Ltd. Virtually the whole of the Tongo kimberlite dyke system is contained within a mining licence held by Rex Mining Ltd.

Table 1 summarises the diamond resources at the two locations.

Table 1: Diamond resources contained in the kimberlites at Koidu and Tongo

Location	Measured and Indicated resources (ct)	Inferred resources (ct)	Total resources (ct)
Koidu*	2,290,000	3,058,000	5,348,000
Tongo	1,680,000	7,748,000	9,428,000
Totals	3,970,000	10,806,000	14,776,000

* to 630 m depth; ƒ to 500 m depth.

Not all the resources in the above table may prove economic to mine. Indeed, it has been suggested (e.g. De Beers, 2000) that the figures may have been inflated by companies in order to boost their share price. However, the Koidu figures used above are based on internal NDMC reports (Cleasby, 1986) which entirely pre-date the involvement of any junior companies in this area. The figures used by DiamondWorks in publicising this project (e.g. Drever, 2001) are in line with these figures. The indicated resources for Tongo are derived from work by SLST/NDMC and the inferred resources derive from work by Rex Mining (CIBC Woody Gundy, 1997). They are classified as inferred resources in acknowledgement of their lower level of confidence. The Rex Mining study, however, had been carried out by an experienced and reputable geologist and, due account being given to the resource classification, there seems no reason to consider the figure excessively inflated.

Outokumpu Ltd has carried out a feasibility study on the Koidu kimberlites and further studies have been carried out by DiamondWorks. Rex Mining has had an engineering study completed on the Tongo kimberlites. On the basis of such studies mine lives of at least ten years in each case have been anticipated and outline production profiles for the first five years of operation are given in Table 2.

The figures contained in Table 2 must only be considered illustrative of the productive potential of the kimberlite deposits at Koidu and Tongo. The timing of the start of production is dependent upon the security situation. However, should both projects proceed to full production then they have the potential to contribute over US$100 million per year to Sierra Leone's diamond exports.

Table 2: Outline production profiles for kimberlite mines at Koidu and Tongo

Year	Koidu		Tongo	
	Production (ct)	Value ($)	Production (ct)	Value ($)
1	54,000	10,800,000	38,000	6,650,000
2	108,000	21,600,000	76,000	13,300,000
3	250,000	50,000,000	152,000	26,600,000
4	250,000	50,000,000	350,000	61,250,000
5	250,000	50,000,000	350,000	61,250,000

NB: Diamond values of $200/ct for Koidu and $175/ct for Tongo have been used. These figures are considered uncertain but not unrealistic for their respective deposits.

The capital cost figures for developing these mines are not well defined at this stage. Outokumpu put a total figure in 1990 of US$70 million to full production, which may be placed, today in the US$70-100 million range. Rex Mining suggested in 1997 that a capital investment of US$45 million was envisaged, which may today be more in the US$50-65 million range.

3. Alluvial diamond resources.

Two somewhat different types of alluvial diamond mining can be envisaged in the future. Large-scale mining, probably relating to deposits with deep overburden, and artisan operations. It is difficult to assess the likely future output from either because of a lack of detailed surveys.

During the 1995-97 period a number of companies took out exploration or mining licences for alluvial deposits for some of which significant resource estimates were publicised. Since no supporting sampling information was attached or alluded to it is considered that these figures are entirely unreliable. However, it is most probably the case that deep diamond deposits of economic potential exist in Sierra Leone. These are likely to be within or adjacent to the major diamond-bearing rivers such as the Sewa, Moa and Mano. Too much uncertainty exists as to their diamond content to speculate as to their likely future production level.

Artisan mining would still appear to have a significant future in Sierra Leone, albeit that it is unlikely to reproduce the levels of production of the 1955-1975 period. Only very rough estimates can be made of the likely diamond production from this source. Examination of the official production records for the artisan sector in Sierra Leone and ignoring those years in which there have been clear and major distortions in the figures (Appendix J), suggests that from annual production levels of between 1 and 2 million carats per annum in the 1955-1975 period there has been a steady decline towards figures in the 200-350,000 ct/yr range more recently. This decline can be accounted for in part by the depletion of the richer and/or more easily accessible deposits. It will also have been influenced, even in 'good' years, by smuggling. And the steadily increasing disruption and lawlessness in the diamond fields areas will also have had its impact, not solely by the immediate effect on any one site but also because of the reduced long-term investment that even an artisan industry requires. Assuming that certain of the negative factors are removed and that the artisan industry can be placed on a rational basis, then the 5-10 year production potential would appear to be likely to be in the 250-400,000 ct range, which, if an average annual price of $200/ct is used, gives a possible annual output in the $50-80 million range.

From a slightly different perspective, De Beers has suggested (Coxon, 2000) that the upper limit of annual artisan production from Sierra Leone could be placed at $160 million and that recent estimates of the likely level of annual production have been in the $35-100 million range. Coxon preferred a 'best estimate' of $70 million for 1999, roughly equivalent to 350,000 ct for total output, including smuggling.

The figures may be compared with this year's official exports which stood at 111,000 ct by the end of June. These exports are on a clear upward trend since the nadir year of 1999, and official exports significantly in excess of 200,000 ct would appear to be likely for 2001.

4. Exploration.

- Sierra Leone remains a country with high potential for additional discoveries of primary diamond sources. This statement rests on the following factors.
- Diamonds are widespread in the country and although there are clear patterns of diamond dispersal from known kimberlite sources, there are many other locations in the country where diamonds occur but for which there are no known sources (Hall, 1969);
- The greater part of Sierra Leone is underlain by geological structures that are known, at a global level, to be particularly favourable for the occurrence of diamond-bearing kimberlites (Janse, 1994);
- In the last few decades there have been remarkable advances in the science and technology associated with the location of diamond source rocks. However, for reasons of history and

general disruption, no significant diamond source-rock exploration programmes have been carried out in the country since the 1960s.

- Application of up-to-date exploration techniques in neighbouring Liberia in the last 2 years has been successful in locating diamond-bearing kimberlite pipes in an area that has similar geology and types of diamond occurrence to Sierra Leone but which had also been similarly previously neglected in diamond exploration terms (Elder, 2001).

The Sierra Leonean offshore area has also been explored for diamonds in recent years. The most extensive investigation was by De Beers, which concluded negatively as to the diamond potential. However, work by Casierra, a private Canadian company, in the waters adjacent to the Liberian border and to the south of the area studied by De Beers resulted in the recovery of a few diamonds which may suggest that the potential of this area may not yet have been fully tested.

It is not possible to propose any level of future production that may come from focussed diamond exploration programmes. However, there are good reasons to think that the Sierra Leone diamond industry may have a longer life than the presently known resources suggest.

5. Summary.

Considering the kimberlite projects that are presently known and reasonable projections for alluvial diamond production, Table 3 summarises a possible production profile for the next five years. It assumes that the peace process will continue and that by the end of this year the companies with rights to the kimberlites will have resumed operations on the ground.

Table 3: Possible output profile for Sierra Leone diamonds, 2002 – 2006

Year	Alluvial output (ct)	Koidu kimberlite (ct)	Tongo kimberlite (ct)	Total (ct)
2002	250,000			250,000
2003	300,000	54,000	38,000	392,000
2004	300,000	108,000	76,000	484,000
2005	300,000	250,000	152,000	702,000
2006	300,000	250,000	350,000	900,000

It is important to emphasise that the figures in Table 3 are essentially illustrative of the country's potential. No contribution to future output has been presumed to derive from exploration programmes although it is not unreasonable to expect that during the next five years some production at least will be likely from this sector. If a present-day average value of US$200/ct is taken for Sierra Leone's production, then in present day dollars the total export value of Sierra Leone diamonds could be anticipated to rise from around US$50 million in 2002 to around US$180 million by 2006.

6. Implications for the Sierra Leone diamond industry.

There are three implications for the Sierra Leone diamond industry in the figures presented above.

- First is the potential of the kimberlite deposits. The resources identified are not large when considered on a global basis (large kimberlite mines can produce over 5 million carats per year). However, the high quality of the diamonds in Sierra Leone suggests that these deposits have the potential to make a significant impact on the local economy.
- Second is that there is significant diamond exploration potential in Sierra Leone and there is no *a priori* reason to assume that the diamond industry is in long-term decline.
- Third is that if the estimates of the likely level of artisan and small-scale diamond production are reasonable accurate, then the diamond market in Sierra Leone will only be of moderate size. This means that it will be difficult to attract the larger, better-quality diamond trading companies because the total turnover will be insufficient to provide them with an acceptable profit, given that diamond buying in a competitive market is a low-margin (3-5%) business. A total market size in the $40-$80 million range (which seems implied by available figures) would likely support only 2-3 quality buyers and it may be doubted whether, say, a duopoly would provide sufficient competition to maintain prices at the highest levels.

Appendix E

Employment Potential of the Diamond Industry

1. Introduction.

The employment potential of the diamond industry in Sierra Leone is difficult to assess accurately because of the number of diggers in the artisan and small mining sector are hard to quantify. Non-government employment in the formal sector derives from staff of diamond dealing and exporting companies, and exploration and mining companies. Government employment relates almost entirely to staff in the Ministry of Mineral Resources and at the GGDO, although it is not easy to identify the numbers related specifically to the diamond industry because of the other functions carried out by the Ministry.

2. Formal sector.

At present, there is no formal-sector diamond exploration or mining activity in Sierra Leone. A number of companies have retained representatives in the country but these are typically working on a part-time basis. Considering the future potential, there are at present two companies with three mining licences and 21 companies holding 46 prospecting and exploration licences. If it is assumed that two underground kimberlite mines are developed, then these are likely to have employment levels in the region of 500 – 1000 each. The employment potential of the exploration companies is much more difficult to assess. When *force majeure* conditions are over, it is not known how many of the companies will resume their activities. In addition, the type of exploration they wish to pursue is unknown. If it is for kimberlites, then the first years of exploration will provide employment for very few, possibly less than 10 people per company. If, as seems possible from the background of certain of the companies, some are likely to pursue alluvial resources and quickly become small miners, then the employment potential is significantly higher, at least in the short term, at possibly up to 100 per company. Moreover, the activities are likely to be highly seasonal. Given these considerations the short-term employment potential in the exploration section appears to fall within the 250-2000 range.

The diamond dealing and exporting sector is more active, although it is also marked by significant numbers who work part time. Currently there are around 140 dealers licences issued and 7 exporter 'groups' are active which seems to involve around 35 actual exporters and 5 agents. If it is assumed that each dealer gives employment to 1-2 others and that each exporter employs 3-4 others, then the likely total employment level in this part of the business will be in the 250-400 range. Historically, when the industry was better regulated and the diamond production in the informal sector was much higher, there were significantly fewer dealers and no greater number of active exporters. It seems likely therefore that employment in this sector is unlikely to grow significantly as the industry increases its turnover.

Table 4 summarises the likely employment potential during the next few years of the formal sector.

Table 4: Likely short-term employment potential in the formal diamond industry

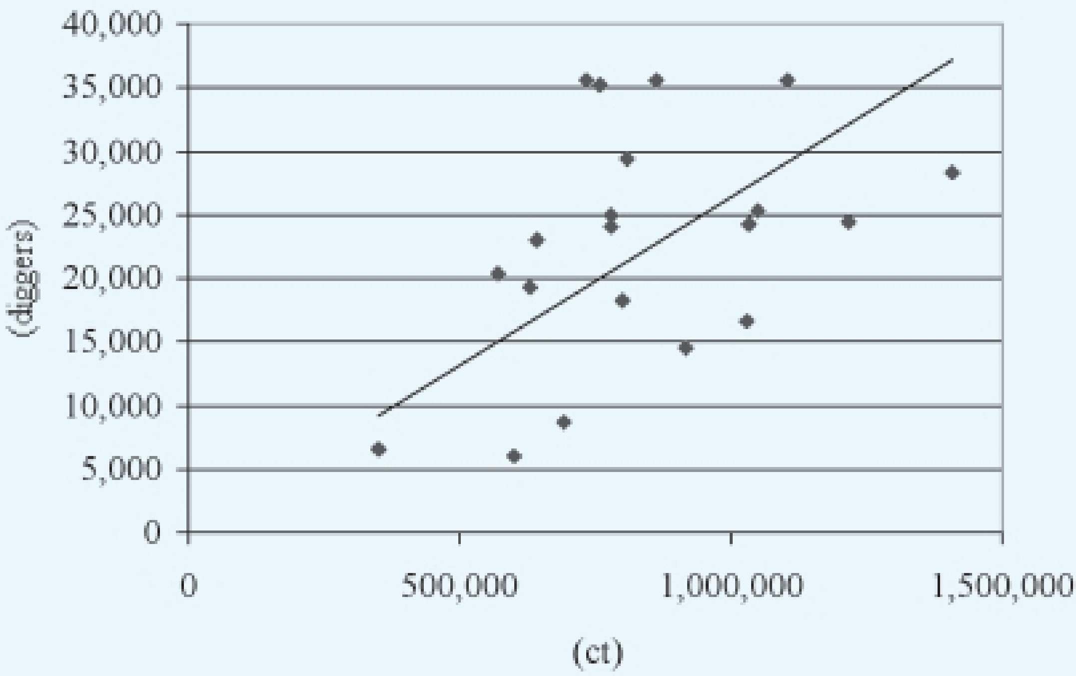
Sector	Lower employment	Upper employment
Mining	1000	2000
Exploration	250	2000
Dealing/exporting	250	400
Totals	1500	4400

The numbers in Table 4 may be thought rather low, but this is typical of the diamond industry formal sector, which has a typically high-value/low employment profile.

3. Informal Sector.

There is a wide range of informal estimates of the number of artisan miners who may be or have been active in Sierra Leone in recent years. Speculative estimates have put upper limits of 200,000 (Coxon, 2000) or even 800,000. Examination of the history of diamond digging in Sierra Leone (Van der Laan, 1965; Fairbairn, 1965; Ministry of Mines Annual Reports 1956-1971) when the country was better regulated and the artisan diamond output substantially greater than in recent years suggests that these figures are too high. The figures for the number of active diggers then had a maximum of around 75,000 and more typical levels of 20-35,000. These accorded to years when official artisan production ranged between 750,000 and 1.5 million carats. Figure 1 summarises the relationship between the number of diggers and the artisan output during the late 1950s and the 1960s.

Figure 1: Relationship between number of diggers and diamond output.



Unsurprisingly, the data in Figure 1 show a wide scatter although there is a clear positive trend. The scatter derives from (a) a variable amount being smuggled each year; (b) basic uncertainties in the actual number of workers employed; (c) variation in seasonality of work during different years; and (d) variation in diamond prices from year to year. Notwithstanding these considerations, there is an overall coherence to the figures, which suggests that the much higher estimates can be regarded as essentially unsupported. Key years are the early 1960s when production was over 1 million carats and smuggling is generally thought to have been at a minimum (van der Laan, 1965; Hall, 1969). At that time the number of diggers was typically just less than 30,000.

The overall trend indicates a relationship of 1 digger equals 0.027 times the total carats produced. Thus, if it were thought that the output were likely to be in the region of 300,000 ct per year, then this relationship would suggest that there need only be around 8000 active diggers. Since deposits are deeper and generally require more labour to produce a given caratage today rather than in the 1950s and 1960s, it may be this figure should be increased to around 10,000. Such a figure would be towards the upper limit of the spread in Figure 1, but still within it. It may be noted that on this scenario and taking an average of $200/ct, then each digger would be generating an output of US$5000 per year, that is 25 ct per digger per year or, say, half a carat per week. Based on observations of activity and productivity in the diamond fields of Sierra Leone and other similar countries these figures seem broadly credible.

4. Dependents.

In assessing the impact of employment it is also necessary to consider the number of dependents that may be supported by the identified active worker. This can be expressed through a 'family coefficient' which is effectively the estimated size of immediate family dependents an average worker has. In various mining projects in different parts of Africa this has been typically assessed as within the range of 5 to 8.

On the basis of such ratios and the employment estimates discussed above, the diamond industry in Sierra Leone could be supporting, within a few years, between 70,000 and 140,000 people.

5. Summary.

The direct employment potential of the future Sierra Leonean diamond industry is not large. In the formal sector, it has been estimated in the 1500 to 4500 range, in the short term. The informal sector inevitably involves larger numbers, possibly in the region of 10,000 active diggers, although this figure must be qualified, for example, by seasonal factors. However, given the high dependency ratios typical of a country such as Sierra Leone, then up to 140,000 people could, in the short term, be dependent upon the diamond industry for their welfare.

Appendix F

Revenue Potential of the Diamond Industry

1. Introduction.

In principle, the government can derive revenue from the diamond industry from a number of sources: licence fees, royalties, profits taxes etc. In 2001, however, the government is only budgeting to receive US$ 1 million in revenue because of the low level of activity in the diamond sector. Almost the whole of this sum is from licence fees. By comparison, the total government revenue estimate for 2001 is US$84 million and the recurrent expenditure in running the Ministry of Mineral Resources is US$345,000. Almost the entirety of the revenues from the tax on diamond exports is committed with only 0.75% of the export value going to the Treasury. It may be noted, however, that the total export revenues are not insignificant in Sierra Leone's balance of trade with estimated diamond exports of US$77 million for 2001 being in the budget, comprising 94% of total exports. However, from the figures given elsewhere in this report, this budgeted level for diamond exports is highly unlikely to be met. Diamond exports to the end of June 2001 were US$14 million and although the trend is upwards during the first half of the year, there is likely to be a shortfall of at least 50% on the budgeted figure.

2. Revenue from licences etc.

Table 5 has been drawn up to illustrate the various sources of potential government revenue from the diamond industry by way of licence fees, rentals and various forms of registration and certification. The figures in Table 5 are based on the current number of licences issued, albeit that force majeure applies to all the holders of licences outside the artisan sector. The potential revenue effect of the dropping of *force majeure* has also been assessed, on the assumption that all the licence holders return. All those consulted during research for the present report indicated that they would do, although a number would have to raise funds.

At the time of writing, it is apparent that the government should derive somewhat over US$800,000 in revenue from the diamond industry. The largest single element is from the diamond exporter's licences of which seven of the authorised eight have been allocated. A proportion of the revenue is allocated to specific schemes (mines monitoring and rehabilitation) which, in 2001, is likely to be around US$110,000.

The direct effect of the recent lawlessness and insecurity can be seen in the difference between the totals for the last two columns in Table 5. In essence the government has been foregoing around US$1.2 million in revenue from this source alone.

Table 5: Government revenues derived from licence fees, rentals and other registrations in the diamond industry. Figures current, mid-2001.

Item	No.	Area	Actual revenue ($)	Possible revenue ($)
Artisan mining licence	907	907 acres	115,436	115,436
Small-scale mining licence	0	0	0	0
Dredging licence	0	0	0	0
EPL	25	2300 mi^2	**Force majeure**	460,104
ExpL	11	166 mi^2	**Force majeure**	66,312
Large-scale mining licence	3	48 mi^2	**Force majeure**	657,040
100% SL company fee	0	0	0	0
>50% SL company fee	1		0	0
<50% SL company fee	0		0	0
Mine manager's certificate	80		1,818	1,818
SL diamond-dealer's licence	102		142,800	142,800
ECOWAS diamond-dealer's licence	17		32,300	32,300
Other diamond-dealer's licence	20		68,000	68,000
Diamond dealer's agent's certificate	85		42,500	42,500
Diamond exporter's licence	7		350,000	350,000
Diamond exporter's agent's certificate	13		65,000	65,000
TOTAL			**817,854**	**2,001,310**

2. Revenue from royalties and taxes on diamond exports.

There are two basic sources of revenues from diamond exports, the rather nominal tax on exports of diamonds derived from the artisan and small-scale mining operations for which there is an open market in Sierra Leone and royalties that would be charged on production of diamonds in the formal mining sector. Currently, there is only activity in the informal sector. Table 6 summarises the likely revenue from three export scenarios which are (a) US$35 million, which may be close to the outcome of the present year if exports continue to grow in the second half as much as in the first half; (b) US$50 million, which is an optimistic outcome for next year; and (c) US$70 million, which may be close to Sierra Leone's current output limit.

Table 6: Export tax on diamonds purchased in the Sierra Leone diamond market (Figures in US dollars).

Exports	GGDO (0.75%)	Valuator (0.5%)	Monitors (0.25%)	Community (0.75%)	Treasury (0.75%)	Total
35,000,000	262,500	175,000	87,500	262,500	262,500	1,050,000
50,000,000	375,000	250,000	125,000	375,000	375,000	1,500,000
70,000,000	525,000	350,000	175,000	525,000	525,000	2,100,000

Table 6 makes it clear that the great majority of this revenue stream is already allocated and that the central Treasury benefits rather little from this sector. This is inevitable to combat the smuggling problem (Appendix J) and hence let the country benefit to the greatest extent in its balance of trade figures.

It is envisaged that the future formal diamond mining sector will pay royalties of 5% of revenue. A possible future formal mining production schedule was outlined in Appendix D and the implications of this for revenue are given in Table 7.

Table 7: Royalty payable on diamonds from possible future kimberlite mine production.

Year	Production ($)	Royalty ($)
1	17,450,000	872,500
2	34,900,000	1,745,000
3	76,600,000	3,830,000
4	111,250,000	5,562,500

Table 7 illustrates that should both kimberlite mines proceed as envisaged, then this will be an important future revenue stream for the government. This will also be a very important addition to the country's overseas trade balance.

4. Profits taxation.

It is envisaged that profits from companies operating in the formal sector will be taxed at a rate of around 35%. However, given the capital investments that will be required to establish the formal mining sector and the need to amortise that capital, it is unlikely that there will be significant contributions to government revenue from this source in the immediate future. However, if it is considered that the operating margin of the kimberlite mines may well be in excess of 50%, then it is apparent that at a future date, once capital has been repaid, then this source of revenue is likely to be measured in excess of US$10 million per annum.

It should be noted that it is essentially impractical to attempt to tax profits on diamond trading companies as this only encourages smuggling.

5. Overall potential revenues.

Ignoring the prior allocation of parts of the revenue streams to certain schemes, it is likely that in the present year the government will recover slightly less than US$2 million during the present year from the diamond industry. Were the country to become secure and companies start to explore and develop mines in the formal sector, then the revenues would increase in the short term to around US$3 million per annum and possibly to as much as US$3.5 million if exports from the informal sector continue to grow.

It can be noted that total revenues to the central Treasury from the artisan sector are always likely to be small. This is considered to be inevitable because of the competition presented by smuggling (Appendix J). The benefits to the government must accrue in the foreign trade sphere and also in the opportunity to exercise control (for example of employment and environmental impact) on the activities in the informal sector where such activities are licensed and subject to inspection.

There are substantial potential revenue gains from the development of a formal mining sector. In the short term these will accrue from royalties on production and in the longer term from profits taxation. It may be noted that in countries with well-regulated formal diamond mining sectors, the total proportion of mine revenues that accrues to government is frequently in the 55-60% range once initial capital has been repaid. This proportion of revenues is typically made up of royalties, profits taxes, equity share of dividends, pay-roll taxes, *etc*. Were this to apply to the kimberlite mines envisaged as having the potential to develop in Sierra Leone, then total government revenues from this sector in excess of US$50 million per year are possible.

6. Policy implications.

Certain policy implications follow from this review of the potential sources of government revenue from the diamond industry.

- The currently moribund formal sector is likely to prove to be a substantially larger and more assured contributor to government revenues than is the informal sector. This is because it is a more assured taxation base. Indeed the nature of the informal sector is such that minimal taxation is necessary to ensure that diamonds are channelled through legitimate channels (Appendix J).

- Community Development Fund payments are currently envisaged to derive from a certain percentage of the export levy on diamonds deriving from the informal sector. Contributions to this fund can also be sought from future formal sector mining projects. It should also be possible to channel funds from aid donors into this fund.

- Funding of both the GGDO and the independent diamond valuator derive from fixed percentages on diamond exports. It is apparent that as exports increase, so will payments to these entities. It can be argued that the work carried out by each one will increase as exports increase, but this would not appear to be in proportion to the increase in their payments. A system whereby a flat base fee is allied to a smaller-than-present percentage fee would appear to be more appropriate in the future. The application of any 'profits' made by the GGDO must also be clarified. Finally, the remuneration of the independent valuator for exports from the formal sector must also be clarified.

Appendix G

Capital Requirements for the Development of the Diamond Industry

1. Introduction – sources of capital.

As it exists today the Sierra Leonean diamond mining industry consists of a number of artisan operations, almost all of which are technically very primitive. For the industry to prosper and to realise the potential outlined in Appendix D, substantial capital investment will be required, whether in the form of upgrading of artisan operations or for the establishment of a large-scale industrial sector.

There is a range of sources of capital for the necessary investments. The capital requirements of the formal sector are such that recourse to the international capital markets will be necessary. Typically these would be a mix of shareholders' funds, commercial bank debt and multilateral agency debt or equity (e.g. IFC). The availability of such funds is normally consequent upon the completion of detailed technical and economic studies, which define the risk and reward, associated with the investment. Consideration is also given to the political risk associated with a country in which such an investment is to be made and the investment may be dependent upon appropriate insurance schemes being available.

More problematic is the source of capital for the artisan and small-scale mining sector. In this sector the level of an individual investment and the likely return on that investment are too small to support detailed prior studies. Consequently the level of risk associated with any single investment is high to very high. This is compounded by concerns associated with theft of any diamonds recovered. Capital for this sector is frequently only available from private sources in situations where the application of the capital and its return can be personally managed. However, it is notable that while individual operations have a high risk the overall sector has a much lower level of risk and this means that it is possible for this risk to be pooled at either the lender's end (e.g. by a bank or a fund) or at the miner's end (e.g. by a cooperative).

2. Potential capital requirements.

The capital requirements for the future development of the Sierra Leonean diamond industry can only be approximately assessed for the three categories of kimberlite mine development, formal sector exploration and artisan/small-scale mining (Table 8).

Table 8: Estimates of the potential capital requirements for the future development of the Sierra Leonean diamond industry for the next five years.

Sector	Possible capital requirements (US$ million)
Kimberlite mine development	120 – 165
Exploration	15 – 25
Artisan/small-scale mining	5 – 15
Total	**140 – 205**

The figures in Table 8 are based on a five-year period and they assume that there will be an appropriate investment environment. For exploration it is assumed that the 36 projects represented by licences currently held (but under force majeure) will all resume but that over a five-year period only 4 will have continued successfully. Assessment of the capital requirements for the artisan/small-scale mining sector is particularly problematic. At the purely artisan level, a very basic minimum need only be assumed but in the small-scale mining sector, where large items of equipment (such as bulldozers, draglines and hydraulic excavators) are required, then more significant capital investments will be necessary. At present no small-scale mining licences have been issued and for the purposes of calculation it has been assumed that over the next five years six small-scale mining operations with capital requirements of between $0.5 and $2 million each will become established.

3. Capital investment from overseas.

It is regarded as inevitable that the capital for all but the artisan-sector investments in the diamond industry will have to come from overseas. The country is in a state of near-collapse and the rebuilding effort required for both personal property and national infrastructure will do more than absorb all the available funds within Sierra Leone.

The actual amounts required (in the region of $140-200 million) are not in themselves significant for international capital markets. The principal projects that can be identified at this stage (the kimberlite-based mines at Koidu and Tongo) are considered to be sufficiently technically and economically robust to be likely to qualify for funding once the necessary feasibility studies have been carried out. However, a major barrier to investment remains the perceived risk deriving essentially from political instability and the possible return of fighting. Various companies lost significant amounts of equipment in 1997 as a consequence of the upsurge in fighting at that period. Shareholders and commercial banks are consequently extremely wary about making further investments.

In such circumstances recourse will have to be made to insurance schemes such as MIGA and export credits. The short-term availability of such insurance for projects in Sierra Leone will be fundamentally important in a quick resumption of investment in the Sierra Leone diamond sector.

In assessing the likelihood of equity being raised for investment in projects in Sierra Leone the competitive situation with respect to other projects elsewhere in the world must be considered. Such a competitive situation does not only relate to the geological potential but the security, political and legal situations must also be taken into account. Perception is also very important. On a number of these counts Sierra Leone currently does not rate highly and it will require a significant promotional effort to make the mining world aware of the investment potential of the country.

4. Access to capital in Sierra Leone.

Historically there has been a problem concerning access to capital for Sierra Leone national businesses. This has applied not only to the diamond sector, but the perceived high risks of the sector in general combined with a large number of small businesses of uncertain management ability in that sector have made the problems more apparent than elsewhere in the economy. Rather few Sierra Leonean national businesses have managed to move from the level of artisan operations to small-scale and even medium-scale industrialised mining, a notable exception being Alhaji Abdulai Sesay's Leone Trial Mining.

Commercial banks have been reluctant to lend into the artisan or small-scale mining sector in Sierra Leone. In part this has been because of the risky nature of the business but it also reflects the lack of security that can be offered to the banks. For instance, property holding in Sierra Leone is rather limited. Land, outside the Western Area, is almost entirely communally owned. The housing market is poorly developed and most of the more substantial houses are 'family' rather than individually owned. In the absence of tradable assets, a bank typically would wish to see a set of trading accounts showing steady cash flow over a number of years before offering a loan. This is of limited help for a business start-up or for an artisan digging operation which may have no proper accounts at all.

A consequence has been that a large proportion of the capital (both initial and working) for artisan and small-scale mining has been supplied by Lebanese traders who have other lines of business on which to raise the capital. Such capital has typically be supplied at very disadvantageous terms which have effectively tied the artisan workers to the enterprise and not permitted them to accumulate capital of their own (for contrasting discussions of this issue see Van der Laan, 1975 and Zack-Williams, 1995. See also USAID/OTI 2000 and 2001).

In order to try to alleviate this situation as it developed in the late 1950s, the American Aid Revolving Loan Fund was established in 1960 with an initial grant of £50,000 (see Appendix A). This fund, after many successful years, apparently ran down because of irregular loans being made outside the artisan sector and because loans became regarded as 'grants'. The fund, however, was a useful manner of pooling of risk in that whilst any one venture in the artisan sector was highly risky, the sector as a whole was not.

5. Summary.

The main points to come out of this assessment of the potential capital needs of the Sierra Leone diamond industry over the next five or so years are as follows.

- The possible capital requirements of the industry are likely to be in the $140 to $200 million range of which the development of kimberlite mines is likely to take the greatest share.
- The very poor and highly disrupted state of the country means that the limited capital resources available internally will largely be required for reconstruction and development purposes and hence the overwhelming majority of the capital requirements for the diamond industry will have to be derived from overseas.
- To make Sierra Leone attractive for such investment requires resolution of the security situation (Appendix I). It will also require that appropriate political risk insurance is available. Without such insurance only a portion of the necessary investment will be made and the type of investor who will be attracted to Sierra Leone will be one who is tolerant of high risk. Such investors will inevitably include among their number those who are willing to cut corners and have low corporate standards.

- In the informal sector individual projects are inevitably high risk but the sector as a whole has a much lower risk profile. To make capital available for small diamond industry businesses in Sierra Leone a fund could be considered whereby risk is pooled across the industry. Such a fund would need to be kick-started from external source(s).
- A significant promotional effort will be required to get the international mining sector aware of Sierra Leone's potential.

Appendix H

Social Issues in Diamond Mining

1. Introduction.

Sierra Leone is a society in crisis. During the last ten years of fighting many traditional social norms and taboos have been broken and a large proportion of the population is in either internal or external exile. The sources of the society's breakdown and the consequent war are imperfectly understood but it has been asserted, and is widely agreed, that an improperly functioning diamond industry has played a significant role in that breakdown. The diamond industry, however, still represents a major national resource that could, as has happened in the past (Appendix A) make a major contribution to the wealth of Sierra Leone (Appendix D). In order that this wealth is realised and channelled in a productive manner consideration must be given to its function in Sierra Leonean society.

2. Ex-combatants.

2.1 General comments.

Ex-combatants, numbering 30,000 in total, are perceived to be a destabilizing force in the peace process. It is widely feared that if their political, economic, and social expectations are not met, they will return to the bush and take up arms. As a consequence, a large amount of resources (channelled through the Disarmament, Demobilisation, and Reintegration Program ("DDR")) is targeted to them. Civil society representatives tend to believe that too many resources are being spent rehabilitating and legitimising the ex-combatants at the expense of war victims, such as the wounded, displaced women and children, amputees, refugees, youth. They assert that ex-combatants are undeserving of both the tangible (e.g. monetary) and intangible benefits (e.g. political recognition) made available to them in the post-conflict period.

The most salient issue concerning ex-combatants is their reintegration in the economy, society, and the military.

2.2 Economic Reintegration of Ex-combatants

Security personnel and civil society representatives believe that reintegration of the ex-combatants, as currently being carried out by the DDR, will not work. The DDR program has been criticized for not having a cohesive, well-formulated strategy and for devoting insufficient resources allocated for technical training, retraining, literacy and numeracy teaching, job placement, and psychological rehabilitation. It has been argued that the six-week training period is too short to fully rehabilitate former fighters and equip them with the means to make the transition to a stable peaceful life. Civilian programs, such as public works programs, although reportedly unpopular with the ex-combatants, need to be incorporated into the DDR to abate tensions during the 90-day waiting period between disarmament and training.

Information collected of 17,000 ex-combatants at the time of registration into the DDR program suggests brighter prospects for reintegration. Surprisingly a minority of ex-combatants report to have any future military aspirations. Over 96 percent of ex-combatants state they do not want to join the army, police or any other military sector. These results should be interpreted with a fair amount of scepticism however as ex-combatants may have believed at the time of registration that if they reported military aspirations they could be barred from participation into the DDR program and potentially from any monetary benefits.

When asked about how they would earn a living after discharge, 39 percent of ex-combatants reported that they had no idea what they would do, 39 percent reported they would become petty traders, 15 percent reported they would become farmers, and 8 percent reported they would work in the public sector. Since there was no category for artisan mining on the form, none of the ex-combatants reported plans for working in the mines. A concern is that bands of ex-combatants will move into the mining areas and stake out their own claims, forming a military threat (either real or perceived) to the local population. As ex-combatants are lowly educated and lack basic skills (40 percent of them have had no formal education and 77 percent of them cannot read or write), artisan mining may be an attractive alternative to other low wage occupations. Yet, the majority of ex-combatants report plans to resettle in or near the vicinity of origin and those who plan to move to a new area cited Freetown and Port Loko as their chosen destinations rather than popular mining communities, such as Bo, Kenema, or Koidu.

2.3 Social Reintegration of Ex-combatants

It is still unclear how communities will respond to the return of ex-combatants. Their return could create considerable social tensions within and across families and communities. It is foreseeable that some returnees may be labelled as outcasts and unable to integrate fully into the community, and there is the political risk that ex-combatants may form their own out-group as a result. Social discord may also arise from situations in which ex-combatants move into communities outside their place of origin. They are certainly bound to pose a threat to residents if they were to migrate into former rebel-occupied territories.

2.4 Military Reintegration of Ex-combatants

The Sierra Leone Army ("SLA") is currently operating a military reintegration program for ex-combatants. Ironically, while ex-combatants have shown little interest in joining the army, military authorities are experiencing difficulty finding suitable recruits from the pool of available ex-combatants, many of whom are uneducated and/or do not show promising signs that they can embark on a professional and highly disciplined career. One formidable challenge for the SLA will be to direct the loyalty of the new recruits from individuals to the state. A second and related challenge will be to build a cohesive army composed of multiple factions with competing interests. The general public is concerned that military reintegration will comprise the integrity of the army, which, in many people's eyes, is at an all time low. There is the danger that the British security forces may be training the next set of coup leaders.

3. Adult Mortality

High adult male mortality in Sierra Leone may pose a major constraint on the recruitment of men into the skilled labour force. IGP Biddle commented that he is experiencing difficulty recruiting and training qualified police personnel, partly because of high adult mortality. He estimates that 300 of the 800 men he recruits for the police force die before completion of training. According to the World Health Organization, Sierra Leone has the lowest life expectancy for both men and women and the highest adult male and female mortality. Life expectancy is just 33.2 years for men and 35.4 years for women. The probability of dying is 599 per 1,000 among men aged 15 to 59 and 557 per 1,000 among women aged 15 to 59.

4. Youth

During the Steven's regime, youth were often the targets of political manipulation. Consequently they became increasingly alienated from public discourse and easy recruits for the rebel forces. Civil society leaders make the case that all youth – not just ex-combatants – are a potential security risk if their social and economic aspirations go unfulfilled in the short and long term. They argue that Government needs to make education easily accessible and allocate resources for vocational training programs, apprenticeships, and micro-credit schemes so as to prevent the crisis from recurring.

5. Refugees and displaced persons

An estimated 500,000 refugees and 1.2 million displaced persons – comprising one-fourth the population – are in the process of repatriation. Over three hundred thousand persons live in temporary camps until they can return safely to their homelands. According to the National Commission for Reconstruction, Resettlement and Rehabilitation ("NCRRR"), a large share of refugees is resistant to leave the camps because they are uncertain what they will return home to. In some communities, the rebels destroyed all the buildings and brutalized and killed residents, forcing many to flee. Over 75 percent of displaced persons are war widows and children. The destruction of homes and social services, combined with forced displacements of a large number of the population, has placed women in a very dangerous and precarious situation. Women in rebel-controlled areas suffer from malnutrition, disease, unwanted pregnancies, and psychological trauma. War widows, formerly dependent on their husbands and male children, are left alone to care for their children and extended family members. Economic activities which women engaged in, such as soap making, tie-dying, and petty trading were all destroyed during the hostilities. Consequently, many women in the camps refuse to leave the camp and return home. Other refugees and displaced persons do not want to return home because they too do not know how they will earn a living, fear for their personal security, and cannot cope with the psychological trauma of seeing former neighbours and family members and rebuilding family and community ties. Some refugees originate from rebel-held areas and cannot return home.

6. Community Rebuilding.

The provision of basic social services --clean water, schools, health facilities, and jobs—is one of the most important building blocks in the peace process. Governmental authority is currently being devolved to the local levels in an effort to empower paramount chiefs to effect changes in their own communities. Land in Sierra Leone is communally owned, and chiefs can play a potentially important role in community development through the allocation of labour and monetary and natural mineral resources.

In January 2001, the Cabinet approved the decision to apportion 0.75 percent of the value of all legally exported diamonds in a special account for use by the communities in which the exported diamonds are mined. The Community Development Fund ("the Fund") provides direct benefits to communities that have suffered the most throughout the years of conflict. It also creates a stake for local communities to ensure that the stones emanating from their areas are sold through legal marketing channels. Although the Fund is small, averaging $13,500 a month, it could become the source of a large pool of money. If the Government is successful in regaining control of the Kono diamond mining region, the value of diamond exports channelled through the Government Gold and Diamond Office (GGDO) could increase to $60 million a year. The Fund would then receive over one-half a million dollars a year.

The Fund recently came under scrutiny from USAID and civil society groups when the Ministry of Mineral Resources allocated 197 million leones (US$ 85,545) to 32 chiefdoms in July 2001 for their own discretionary use. It is rumoured that the Ministry disbursed the money without any string attached to curry political favour before the upcoming elections. This occurred in spite of technical assistance rendered by USAID, in collaboration with NGO representatives, in setting up a system for the designation and allocation of the funds. In the absence of clear guidelines on how the funds are to be spent and strict monitoring controls, there is serious doubt as to whether the funds will be invested in the community according to the desires of the population, if at all. It was originally envisioned that newly created Chiefdom Development Committees would have the responsibility for identifying and ranking local development priorities, approving projects, and controlling, disbursing, and ensuring accountability over the funds, and ensuring that local inputs such as labour and building materials were provided for each Fund-supported project. In this way, communities would feel in control over their destinies and would gain confidence from being responsible for their own development activities.

Mr Joseph Melrose, the U.S. Ambassador, appealed to President Kabbah who reversed the decision of the Ministry of Mineral Resources, however the Ministry failed to follow the President's order and allocated the money without the presence of controls. At this time, the Ministry has no plans to adopt a structure for future disbursements of the Fund. Communities are thus reliant on the personal integrity of the chief for investing the money in worthwhile endeavours and on the media outlets for inserting transparency and accountability into the process.

In addition to investments in social and economic infrastructure, local communities face two other challenges. The first challenge concerns the election/nomination of new paramount chiefs to replace those chiefs put into power by the RUF. How this is to be achieved has not been addressed; it is likely that each tribe will nominate/elect/install a new chief using its own protocols and social norms. There are bound to be fall-outs from the displacement of chiefs in some communities, however the positive impacts are likely to greatly outweigh the negative impacts. Democratically elected chiefs are likely to be more responsive to their citizens and more accountable for their actions than the RUF-allied chiefs. Social cohesion is also likely to be stronger in communities that support their chiefs.

The second challenge concerns the resettlement and reintegration of refugees, displaced persons, and ex-combatants into community life. The more homogeneous the community, the more likely individual members will have common goals and aspirations and the easier it will be for them to assimilate. Assimilation will be much more difficult in communities characterized by a mix of social and tribal groups, especially if certain populations are perceived as being "insiders" or "outsiders." The conglomeration of different cultural and societal groups is currently taking place in Freetown and will most likely take place in cities located in the heart of the diamondiferous mining areas, such as Bo, Kenema, and Koidu. Prospects for social antagonisms and even unrest are thus likely to be greater in these cities, particularly if the various groups begin to compete for resources. The migration of seasonal mining workers and dealers is also bound to cause social discord among residents who view temporary workers as intruders onto their land and natural resources.

7. Process toward Reconciliation

Since the Lomé Peace Accord, reconciliation has been an oft-voiced theme in the nation's dialogue. In many people's minds, the outcome of the national elections will determine the course of the country's future. And because the elections are necessary for confirming the legitimacy of the future peace process, it is imperative that they are conducted in the near future (it should be noted that two-thirds of President Kabbah's Cabinet was not elected). But civil society leaders argue that elections will not be fair and representative as long as major segments of the population reside in areas other than their home districts. They are concerned that a quickly organized election, such as the previous national election, will serve the interests of select party and government officials. Consequently, they are pressuring the Government to delay the elections until the DDR process is complete. But since DDR is taking longer than expected, elections are anticipated to take place in January or February 2002. NGO representatives are also pushing for independent election monitors to ensure that people are not coerced into voting for certain candidates and that all the votes are counted.

Another issue in the public debate is the redress of war crimes. The question remains whether the leaders of the rebel forces will be indicted by a Special Court on charges of human rights violations during the war. There was a provision in the Lomé Peace Accord that gave blanket amnesty to the rebel leaders for war crimes. Since, however, the RUF did not abide by the terms of the Peace Accord in May 2000, the Government adopted a selective approach to the implementation of Lomé. To its discredit, the Government has pushed at certain junctures for a Special Court to indict the RUF only, although it is a well-known fact that other military factions, such as the CDF and the AFRC, also committed atrocities against the civilian population. Recently, the Government called for a postponement of the Special Court so as to encourage the RUF to enter into peace negotiations. The Government and civil society leaders are now advocating the establishment of a Truth and Reconciliation Commission (TRC) to investigate human rights violations. The TRC would be a forum for war victims and perpetrators to tell the truth about their involvement in the war. Documentation of war abuses would serve as an official historical record felt to be important in stopping war crimes in the future, in enabling war victims to seek civil redress, and ultimately, in helping the nation to heal.

8. Corruption

Perhaps the greatest obstacle to effective management of the diamond industry is institutionalized corruption. Corruption is pervasive; it exists in every institution, both public and private, at the top and bottom tiers. Bribery of public officials is so commonplace that it threatens to undermine the integrity of state institutions. There are allegations that diamond dealers (mainly of Lebanese origin) have in the past obtained mining licenses by paying bribes. It is also alleged that the Mines Monitors do not carry out the full force of their confiscation powers (since courts are ineffectual, it is often easier to make a deal with the unscrupulous dealer than to wait six weeks to receive the reward for turning over illegal goods). Mines Monitors do not have the requisite skills to fully carry out their functions, and reputed to be easily comprised, consequently fail to deter illicit mining and marketing activities.

9. Drugs, Arms, and Diamonds Trafficking

It is well known that diamonds are smuggled from Sierra Leone into Guinea, Liberia and Burkina Faso. Diamonds are used to purchase drugs and also weapons in support of military insurgencies in Sierra Leone and in Liberia and Guinea. It is believed that non-nationals, sometimes in alliance with the RUF, are the most active smugglers. There are rumours that Sierra Leonean citizens also smuggle diamonds and/or aid smugglers. Smuggling is also reported to have occurred even among UNAMSIL and ECOWAS troop personnel. Michel Lempel, the independent diamond valuator at GGDO, in reports to the Ministry of Mineral Resources, and in discussions with our team, has urged for heightened security controls at all land, sea, and air border checkpoints. He advocates the routine searching of all travellers, including international military personnel, irrespective of their social status, rank, nationality, or purpose of travel. When departing Freetown, our team was questioned by the airport mines monitors but neither our luggage nor we was searched. In fact, we did not witness any searches being carried out.

10. Environmental Degradation of Mining Areas.

Decades of intensive alluvial mining have wrought serious consequences on the environment, large areas of forest and agricultural land in the diamondiferous areas. Any options considered for the effective management of diamond mines should contain provisions for environmental reclamation and effective means for enforcement.

11. Exploitation of Artisan Miners

Artisan mining in Sierra Leone is a low wage; subsistence activity carried out by a predominately unskilled male work force. In most cases, miners lack money for basic tools (e.g. shovel, pan and sieve) and lack access to bank credit. They therefore borrow money to buy the tools or the tools themselves from dealers, usually of Lebanese descent, to whom they are obligated to pay a portion of their findings. Since the digger has insufficient experience to value the diamonds he finds, he is at a major disadvantage vis-à-vis the dealer, who often colludes with other dealers in the area to set minimum prices. Family members of miners, including children, sometimes work as indentured servants to the dealer as long as the miner remains in debt to him. Not surprisingly, children of miners withdraw from school more frequently than the general school-aged population. Because physical working conditions in the mines are poor, miners are at high risk for contracting diseases and suffer other negative health outcomes as a result. It was documented in one study, for example, that miners experience a high rate of blindness and deafness from diving in water without protective equipment. A major challenge for the management of the diggings will be to break the miner’s dependence from the dealer.

12. Allocation of artisan mining licences.

A central issue in the consideration of options for the future security of the diamond areas concerns the access of certain indigenous groups to artisanal mining. What should the considerations be for determining eligibility for mining activities? Should original residents of the mining area have priority access and/or exclusive rights to artisanal mining? Should certain groups be accommodated, particularly those who feel they have prior rights to the diamond deposits, such as local residents, military factions, or citizens?

In determining allocation of licences, it will be important to balance equity concerns with security concerns. Civil society representatives assert that the communities living in mining vicinities should control mining profits. Limiting access to residents, however, may cause a backlash among rebel factions that had occupied the mining area during the hostilities. It may encourage a new generation of migrants to the mining areas and raise questions about the definition of a "resident." Restricting access would also inevitably give rise to illicit mining. On the other hand, civil society representatives argue that the presence of "strangers" in mining communities has a destabilizing influence on the local economy and on local cultures and traditions. It is argued that such strangers rob communities of their mineral resources. Because they do not have a stake in the local community in which they work, strangers do not respect local traditions and ways of doing things and are thus inclined to disrupt community social and economic structures.

Once it has been decided which groups will have access, the next policy decision concerns mechanisms to regulate the awarding of licenses. Theoretically, in the past, the Paramount Chief was the gatekeeper to the mines. In practice, however, chiefs were often subject to influence by politicians, dealers, and other interested parties, and it was these competing power groups who in effect controlled *de facto* access local diamond resources. The success of any mine management scheme will ultimately depend on the willingness of paramount chiefs to back the arrangement and quite possibly, to enforce it. Chiefs should therefore be expressly involved in the development of policies that directly affect the communities over which they preside.

13. Local Ownership of New Security Arrangements and Democratic Institutions

Much of the road being paved for post-war security and reconstruction in Sierra Leone was done by the International Community, most notably the UK Government, UNAMSIL and ECOWAS. As the process begins to unfold, attention should be devoted to the topic of rooting local ownership into the institutions newly created by the International Community. In order for institutions to work, there must be willingness and commitment among broad sectors of government, the military, and the populace to abide by the rule of law. Public faith and confidence must be restored in the civil institutions, in the courts, police, military, and government.

At the present time, public morale is low. Citizens feel that the Government, by not providing security, food, medicine, or employment, is failing the people. Citizens doubt the Government's commitment to the reform process and doubt the capability of Sierra Leoneans to solve the country's problems. There is strong distrust of the army and the police, although confidence in these institutions has improved since the appointment of British personnel to top posts. It was reported to the team that citizens welcome the presence of the British to restore order and rebuild the country and that some quarters even wish that Britain would recolonise Sierra Leone. Such a situation may become problematic in the future when the British forces leave the country. It is therefore critical that the Sierra Leoneans are actively involved in the creation of institutions, feel responsibility for their management, and are capable in their operations.

14. The Lebanese Community.

It is a commonplace in Sierra Leone to hear the Lebanese community regarded as a negative influence on the Sierra Leonean diamond industry. The generally stated position in Sierra Leone is that Sierra Leone nationals would like some way to be devised to remove the Lebanese from the industry. However, the true situation is much more complicated. The relationship between the Sierra Leonean nationals and the Lebanese is one of interdependence.

It is also necessary to appreciate the fundamental role that the Lebanese play (and have played for over a century) in the overall Sierra Leonean economy. Moreover, it must also be realised that not only are many 'Lebanese' born and brought up in Sierra Leone, but also some families are in their third such generation. Indeed there are many Afro-Lebanese, particularly deriving from the Moslem side of the Lebanese community, perhaps the most famous of whom was Jamil Said Mohammed who in the early/mid 1980s could be considered the single most influential person in the Sierra Leonean diamond industry (see Appendices A and J).

Finally, there are a number of Lebanese diamond dealers, some now based in Belgium, who, having made their money in Sierra Leone, are now significant in a global sense and are accepted as such in the diamond world.

In essence, it must be concluded that the Lebanese community will continue to be a significant influence in the Sierra Leonean diamond industry for the foreseeable future and that it will not be possible to simply legislate this influence away. Indeed, any such attempt is likely to be counter-productive in getting an open, functioning diamond industry in Sierra Leone. The issue then is how to get the Lebanese community to be part of the solution rather than part of the problem.

During interviews for this study, it was interesting to learn that a meeting of those involved in diamonds in the Sierra Leonean Lebanese community had taken place earlier this year and that they had agreed, as a community, to help Sierra Leone. This suggests that the Lebanese community has a 'heart' and that it can act with a common purpose.

15. Conclusions.

The following issues are considered important in establishing a policy for the future development of the diamond fields.

- Measures should in introduced to combat corruption, to increase transparency in the administration and regulation of the diamond industry and to provide clear links between the local communities and the diamond wealth generated from their chiefdoms.
- The involvement (if any) of ex-combatants in the artisan mining sector should be clarified. This matter cuts across issues of access, rehabilitation, and skills training.
- A programme of environmental rehabilitation of both present and historical alluvial diamond-mining areas should be considered. This raises questions of reforestation, agricultural production and the access of the local population to water resources.

Appendix 1

Diamond Industry Security

1. Introduction.

Security is an inherent problem in the diamond industry because of the low-volume – very-high-value characteristic of the product. All countries that have significant diamond industries have legislation that permits diamond-industry participants to establish a secure environment for the industry to operate. Such legislation may extend from requirements for licences for the possession of uncut diamonds, through restricting access to certain areas, to permission for diamond-industry companies to make their own diamond security arrangements in and around mines and other facilities where diamonds may be processed or manufactured.

In addition to these 'normal' concerns, in the last decade Sierra Leone has had diamond security problems of a different order. These relate to the effective breakdown of government law and order and the usurpation of these functions in the diamond areas by rebel groups or other armed gangs. The effect has been several-fold. First, there has been a major decline in official production (Appendix A) and an upsurge in smuggling (Appendix J). Second, there has been a severe deterioration in the social conditions in the country as a whole and in the diamond fields in particular (Appendix H). Third has been the almost complete halt to investment in the diamond industry (cf. Appendix G) whether in the formal or informal sectors. And finally, there has been recourse, from time to time, to the use of private, paramilitary security companies to try to secure important parts of the diamond fields for formal sector investment (Smillie et al., 2000). This use of such paramilitary groups has had negative political and diamond-industry consequences.

During discussions with various diamond trading and mining companies for the preparation of this report, the security situation was invariably mentioned as a discouragement to future investment.

2. Countrywide security.

Background.

Historically, as in most countries, countrywide law and order in Sierra Leone has been the responsibility of the police force. Outside designated mining concessions the police were responsible for the normal maintenance of law and order and investigation of criminal acts which included diamond theft, unlicensed possession of diamonds and illegal diamond trading. During the 1960s, for examples, prosecutions relating to the diamond industry typically ran at 3000-4000 per year (Department of Mines Annual Reports).

In recent years, however, the breakdown in law and order throughout much of the country has resulted in the police force becoming a rump confined to the Western Area. Almost all police facilities outside the Western Area have been destroyed and it is only in recent months that a resumption has been made to the re-establishment of the police in the greater part of the country. As the peace process continues and the various armed groups disarm, the potential security vacuum created by the absence of an effective police force is largely being filled by UNAMSIL.

Countrywide security concerns not only activities of mining companies but also the transfer of cash and diamonds to and from diamond dealing offices.

It is apparent that a total of five distinct organisations may have responsibilities at present or in the future for various aspects of countrywide security with respect to the diamond industry. These are: UNAMSIL, the Sierra Leone Army ("SLA"), the Sierra Leone Police ("SLP"), Mines Monitors and Customs and Excise.

2.2 UNAMSIL.

The activities of UNAMSIL are governed by its mandate, which derives from three United Nations Security Council Resolutions (1270 (1999), 1289 (2000) and 1346 (2001)). The last of these resolutions is based on a report to the UN Secretary General (S/201/228), which includes (paragraph 58) the following statement:

"The main objectives of UNAMSIL in Sierra Leone remain to assist the Government of Sierra Leone to extend its authority, restore law and order and stabilise the situation progressively throughout the entire country, and to assist in the promotion of a political process which should lead to a renewed disarmament, demobilisation and reintegration programme and the holding, in due course, of free and fair elections."

It is apparent that UNAMSIL's mandate is constrained by the progress of the peace process and the eventual holding of free and fair elections. It can be anticipated that, provided the peace process remains on course, without a major reappraisal of its mandate UNAMSIL's presence in the country can be considered essentially short-term. UNAMSIL's current strength is approximately 17,000.

In the short term, UNAMSIL has been effective in extending its control to the principal diamond areas previously held by the RUF, Kono and Tongo. In these areas the RUF and CDF have accepted the presence of UNAMSIL and disarmed. However, it is apparent that UNAMSIL does not consider that its role extends to the policing of IDM in those areas (UNAMSIL Press Briefing, 20th July, 2001). In Kono, a cessation to all diamond mining was agreed between the government, the CDF and the RUF on the 18th July 2001. This agreement was widely ignored on the ground and UNAMSIL declined responsibility for the implementation of the agreement.

In considering the role and responsibilities of UNAMSIL with respect to policing the diamond areas, the experience with the ECOMOG force during part of the 1990s should be borne in mind. At that time it was widely alleged that ECOMOG officers and troops became directly involved in and profited personally from the diamond trade. The potential for a recurrence of such activities is likely to remain, and recently allegations to that effect have resurfaced. These have been rebutted by UNAMSIL (UNAMSIL Press Briefing, 4th September 2001).

Finally, there is a relatively low level of popular acceptance of UNAMSIL by the Sierra Leone public. This appears to derive largely from the very poorly organised start to the UNAMSIL mission in 2000 which resulted in several hundred of them being captured, disarmed and held hostage by the RUF.

In summary, UNAMSIL is present on the ground and has significant resources in both materiel and personnel. However, it has neither the mandate nor, apparently, the desire to become directly involved in formal policing of diamond mining activities. It is doubtful whether the local population would accept it in such a role. Long-term responsibility for countrywide security must be addressed in the context of Sierra Leone's own national institutions.

2.3 Sierra Leone Army.

In interviews for this study, it was apparent that the SLA did not consider that it had any specific role to play in the policing of the diamond industry. It did not wish to have any such role either. The SLA conceives of itself as having responsibility for the integrity of the country's borders and that during 'normal' times internal law and order should be the responsibility of the police force. However, were there to be a residual 'banditry' problem following resumption of normal political life, the SLA could envisage itself becoming involved in tackling such a problem.

The SLA during the 1990s has had a very chequered history having been involved not only in two military coups but also having, at one time, sided with the RUF and been implicated in atrocities in Freetown (Appendix A). It is currently being re-established as a disciplined force by a training mission of the United Kingdom Army. There is a concern, however, that if the SLA was permanently deployed in the diamond areas the discipline may be compromised by the temptation to get rich quick.

For reasons of recent history, there is apparently a low level of trust in the SLA by the general population. Deployment of the SLA into formerly RUF-controlled areas is also presently contentious. That current issue notwithstanding, the SLA considered that, over time, they may be able to integrate as many as 5000 ex-combatants.

In a normal situation the SLA should have no role in the provision of security to diamond industry participants. However, there may be a need for short-term deployment in parts of the diamond fields should armed banditry emerge as a security threat, either to legal mining or exploration operations or to the necessary transfer of diamonds or cash required for legitimate diamond buying.

2.4 Sierra Leone Police.

The SLP has a formal responsibility for the maintenance of law and order with the country's borders. This extends to arresting and prosecuting those who are found in illegal possession of rough diamonds. It would also have a responsibility to ensure that any access limitations imposed by the Minister of Mineral Resources (Appendix B) were adhered to.

The police anticipate having a continuing role in the enforcement of laws concerning the diamond industry as well as, in general, ensuring that there is a peaceful environment in which legitimate business of whichever kind can be undertaken. The police, however, are acutely aware that they are under-resourced both in terms of physical infrastructure and personnel. Almost all police stations and officers' accommodation throughout the country have been destroyed and little transport capacity is available. Temporary solutions such as the use of ad hoc buildings are being resorted to and are accepted in the short term because of the widespread appreciation of a dire situation. Police numbers are presently around 7000 with a target of 10,000. With a training capacity of a maximum of 800 new officers per year (and only 420 this year) it will be several years at best before staffing is at its required level. This issue is additionally complicated by the high rate of mortality in the force (Appendix H). The educational quality of the potential intake is also of serious concern with too high a proportion having inadequate literacy skills. Additional training is therefore required, not just in general, but in particular for those officers who may be directly involved in police action in the diamond industry. Additional training for them in a country such as South Africa where there is specialist knowledge about the diamond industry in the South African Police Force is presently being considered.

Historically (and as in much of Africa), the SLP did not have a good reputation with the general public, being considered essentially corrupt and constantly extorting minor bribes ('dashes') for everyday events. In the last 2-3 years a concerted effort has been made to upgrade both the appearance and the professional standards of the police. This appears to have borne fruit and the general public opinion of the police is much higher than formerly. The many examples of petty extortion, if not stopped, have greatly declined, not least because the police appear to be being paid on a regular basis. It was notable that a cross-section of the people who were consulted during the visit to Freetown was favourably inclined to the police. It was also reported that in areas where the RUF has agreed to disarm, a police presence was accepted by the RUF (and positively welcomed by the general population) while a SLA presence was not acceptable.

It appears inevitable that the SLP will have a main role to play in future maintenance of law and order in and around the diamond fields. In order to carry out this form of policing close relations should be established with the local authorities (in the chiefdoms and in the Ministry of Mineral Resources). It would appear advisable to establish a specialist diamond police unit which should be staffed with well qualified officers who should also receive specialist training.

2.5 Mines Monitors.

A clear statement of the duties and responsibilities of Mines Monitors has not been provided. However, it is understood that they operate as "authorised officers" under Section 7 of the Mines and Minerals Act 1996. As such they have rather wide powers of search for and confiscation of illegally held precious minerals. This power of confiscation is apparently reiterated in Section 9 of the New Policy Measures. No standards of education, experience or training appear to be prescribed for Mines Monitors.

It has been noted (Appendix H) that the Mines Monitors do not carry out their work in an effective manner. Their ability to stop significant smuggling is limited but their position can readily lead to indulgence in petty corruption. Their duties appear to overlap with both the police and the Customs and Excise, yet there appears little liaison between the various groups.

The mines monitoring arrangements are (at least partially) financed by portions of licence fees and the diamond export tax. In the present financial year this is estimated to amount to around US$140-170,000 (Appendix F). As diamond exports rise and the number of artisan licences also rise, then this sum could rise to over US$250,000 in one to three years.

The future role of the Mines Monitors needs careful consideration. It is not apparent that, as presently established, they are performing a useful function within the diamond industry. Their functions are not adequately defined, and they are inadequately staffed and resourced. Their functions appear to overlap with those of other organisations to no obvious benefit.

2.6 Customs and Excise.

Customs and Excise has a formal responsibility to ensure that goods (including diamonds) are imported and exported legally and that all applicable dues and taxes are paid. For this reason a Customs and Excise representative is a signatory on Certificates of Origin for diamond shipments cleared through the GGDO (Appendix C). The precise division of responsibilities and operations between Customs and Excise and the Mines Monitors is not clear at airports or (in principle) at the docks.

Customs and Excise has a relatively limited remit (relating specifically to imports and exports) and a limited presence (relating to certain entry and exit points). Whilst in principle it could be active along the length of Sierra Leone's frontiers it does not have the manpower, training or resources to do so.

It can be anticipated that Customs and Excise will have a continuing role in combating diamond smuggling as part of their wider remit. More specific liaison with the other organisations that have responsibilities towards combating illegal diamond dealing and exporting would apparently be to the benefit of all.

2.6 General issues.

A number of comments may be made on the issue of countrywide security.

- Diamonds occur widely in Sierra Leone and many of the deposits are easy to exploit, even with rudimentary equipment (Appendix D). The areas in which diamonds occur are also highly populated. These facts mean that formal policing of the Sierra Leone diamond fields is a particularly difficult business.
- A large number of people are directly and indirectly involved in the diamond industry in Sierra Leone. There are potentially between 10,000 and 15,000 people directly involved mining (of various sorts) and dealing, and these direct participants may have over 100,000 dependents (Appendix E). Such large numbers of people with a close relationship to diamond industry activities also presents significant policing problems.

- A number of different Sierra Leonean national organisations (SLP, Mines Monitors, Customs and Excise) appear to have overlapping roles as regards security issues in the diamond industry. It would be advantageous to have the respective roles of the different organisations defined and clarified.
- The level of training and education of the various participants in the above organisations is diverse and, generally, inadequate. This appears to particularly apply to the Mines Monitors, the body who are most intimately involved in the diamond industry.
- Effective security operations (both from the point of view of physical security and that of combating theft, IDM, IDB and smuggling) are dependent upon good intelligence. It is not apparent that effective intelligence gathering has been taking place or that intelligence is being shared in an organised fashion between the various participants in the diamond security sector.
- Security, in its widest sense, is dependent, in large part, on public attitudes both towards the industry and its participants. A good example is the former attitude to IDM in the SLST mining concessions (Appendix A) where the general public in and around the concessions did not consider that IDM was a crime (because the diamonds really belong to the indigenous people). This attitude was the water in which the IDM fish swam. It is therefore important that security issues are addressed in such a manner that the general public understand and are in sympathy with.

3. Artisan-mining areas security.

The New Policy Measures declare a large number of Chiefdoms or parts of Chiefdoms as being reserved for Small-scale and Artisanal diamond mining. The New Policy Measures also state that in such declared areas only people of Sierra Leonean origin and nationality are permitted to reside and participate in the diamond industry. All other nationals are required to relocate to designated towns if they wish to participate in the diamond industry.

It is not apparent how these measures can be enforced on the ground at present. The regulations imply a form of access control which will be near impossible to enforce in a formal sense, given the size of the areas concerned, the numbers of people living there and the very poor infrastructure. Large numbers of police and/or Mines Monitors would be necessary and it is unlikely that such numbers will become available in the near future. Access control is also likely to be used as a pretence for petty corruption.

The large numbers of people that are potentially involved, directly and indirectly, in the artisan mining sector have been noted earlier. The limited capacity of the SLP and the Mines Monitors has also been commented on. It seems unlikely that a workable security system (such as access control) can be imposed on the artisan mining areas. Rather, the direct involvement of the indigenous population must be the basis on which the security system is based. Such involvement will be dependent upon a number of factors.

- The introduction of mechanisms whereby the indigenous population directly benefits from the mining activities (e.g. the Community Development Fund; environmental rehabilitation).
- Education of the population as to the role that the diamond industry has to play in the development of the country. This could start with a campaign around the theme of a "New Diamond Industry for a New Sierra Leone", in which a specific break with the past is made.
- Good community relations between the indigenous population and the formal law and order officers, which must derive from actions on both sides.

4. Concession-level security.

The legitimate security concerns of exploration and mining companies involved in the diamond industry (other than transporting diamonds from mine to market) traditionally begin at their concession boundaries. Exploration companies, depending on the stage of their operations, may have a relatively limited security regime but the majority of mining companies have a structured approach to security. Such an approach will involve increasingly tight levels of security from the concession boundary to open mine faces to process plants to diamond recovery facilities. Security systems typically involve access control of people and vehicles, fencing, fail-safe locking systems, personnel and area monitoring (e.g. by CCTV), personnel security checks and searches, and hands-off diamond recovery and sorting equipment. All the activities undertaken to ensure security in and around a diamond mine must be within the applicable legislation.

The Mines and Minerals Act 1996 and the accompanying regulations and the model prospecting and exploration contracts do not specifically give powers to mining companies to carry out the more invasive aspects of diamond security. However, Section 124 of the Act does permit the Minister of Mineral Resources to empower the holder of a mineral right to limit access to certain proscribed areas (which may include a town or village) and to give them powers of search. It appears, however, that the mineral right holder (or his agent) could not be granted specific powers of detention or confiscation. No mention is made of the power to possess arms and it is therefore presumed that this is forbidden.

As written, the Act would appear therefore to require that a mineral right holder would have to operate in conjunction with another of the security organisations (such as the police or the Mines Monitors) in order to apply a level of security that would be typical of a normal diamond mine.

In other countries (e.g. Namibia, South Africa, Angola) private security firms are involved in the security aspects of diamond mining. This is a change to the historical situation whereby mining companies tended to operate their own security forces. The motivation for the change is apparently both economic (contracting out services at lower cost) and security-driven in that specialist firms are thought to have a greater range of expertise than may be immediately available inside a mining company. Use of external companies also helps create the desired barrier between mining and security personnel.

The roles of security companies have been quite diverse, ranging from armed patrols providing physical security within a concession, through establishment and monitoring of general on-mine site security, to application of specialist services such as the use of lie detectors. Because of this wide role and because some of the activities of private security firms in providing physical security have been controversial (not least in Sierra Leone) certain of the security firms have gained poor reputations. It is therefore important that the activities of security companies should be clearly regulated with appropriate legislation. There are a number of well-established, experienced companies that are capable of performing valuable services to the diamond industry and such companies will undoubtedly welcome clear legislation. Given the history of the involvement of some private security firms in Sierra Leone legislation should also make clear that such services can not be rewarded by payments in kind such as mineral concessions or, for that matter, in rough diamonds.

5. Kono – A special case?

The Kono area has always presented the greatest security problems in the Sierra Leone diamond fields. This is because of the large size and high quality of the diamonds that occur there combined with their relative ease of recovery. It can be anticipated that in the immediate future Kono will continue to be the area where the greatest problems are encountered.

There are two distinct types of diamond deposits in the Kono area, which are sufficiently dissimilar in their mode of occurrence to present different types of security problems. The first is the hard-rock kimberlite occurrences and the second is the alluvial deposits (Appendix D). The kimberlites are essentially discrete targets with a limited surface expression whereas the alluvial deposits are widespread. The best-known kimberlites are held in a mining lease by Branch Energy Ltd (a wholly owned subsidiary of DiamondWorks Ltd). An extension of these kimberlites to the east is covered by an exploration licence held by AmCan Minerals (SL) Ltd. These two licences cover an area of around 25 km2 and while it is likely that there will be some remnant alluvial deposits within their limits, these are unlikely to be important. The greater part of the remainder of the Kono diamond field is held on exclusive prospecting licences by Golden Leo Resources Ltd (a subsidiary of Mano River Resources Ltd) and Molans Mining Co (a Sierra Leonean private company). Together, these licences cover an area of over 650 km^2.

The hard-rock nature of the kimberlite deposits, allied to their significant extent at depth, means that they can only be mined in a mechanised manner and diamond recovery can be planned within a largely closed circuit. These characteristics, together with the very small footprint of the deposits and associated mining infrastructure, imply that they can be largely isolated from the remainder of the area from a security point of view. Normal diamond mine security provisions can be envisaged as being applied in these instances.

The alluvial deposits, however, present a very different security problem. SLST/NDMC attempted to tackle this problem by having access control and active security against IDM (Appendix A). Despite employing over 2000 people and the use of helicopters, a successful security regime could not be imposed on the area. As SLST/NDMC were working at a time when the physical infrastructure of the region was much better than at present, it is almost impossible to envisage an attempt to impose a similar type of security as being successful. Indeed, IDM miners are now in de facto possession of the area and can be anticipated to resist attempts to eject them. Many of the present participants in IDM are also (disarmed) members of the RUF and CDF. It would seem likely that only the direct application of force would be effective in clearing the Kono area. However, such a use of force is unlikely to be sanctioned because of its potential for destabilisation of the wider peace process. Moreover there are apparently no legitimate parties who are able or willing to engage in the necessary action.

A further issue of importance in the Kono area is that much of the indigenous population has been displaced and those who have recently been illegally mining there come from other parts of Sierra Leone, even from outside the country's borders. Moreover, a very large part of the built environment has been destroyed and this presents a major problem for the return of the original inhabitants. In the first instance, therefore, the indigenous population (through chiefdom authorities) may only be able to play a relatively minor role in the re-establishment of legitimate mining in their area.

The problem of introducing legitimate diamond mining in the Kono area is thus potentially severe and the product of two distinct factors. The first is that of legislation and the second is that of the attitude of people on the ground. It is presumed that the government's policies will include (a) the return of the indigenous population to the Kono area, (b) diamond mining to be carried on solely by legitimate means, (c) the reconstruction of the physical infrastructure, and (d) restitution of the environment.

The present legislation provides exclusive rights to the holders of the relevant licences. As discussed, enforcement of these exclusive rights appears unlikely to be practicable for the alluvial deposits. Certain possibilities can be considered to resolve this issue.

- The licences of those companies holding other than established kimberlite resources could be revoked and the area of the alluvial deposits opened for Small-scale and Artisan Mining licensing.
- Companies holding licences where there is potential for alluvial production may be permitted to sub-contract to Small-scale and Artisan miners. As exploration licences are not mining licences, such a solution would need additional legislation. This legislation would need to be clear on the legal ownership of diamonds recovered. The success of such an approach will partly be dependent upon the interest that the existing licence-holders have in sub-contracting.

In addition to the above matters concerning licensing, consideration must also be given to the persons who may legitimately reside in the Kono area. It will be recalled that were the area to be declared for Small-scale and Artisan mining, then only citizens of Sierra Leonean origin and nationality would be allowed.

Finally, it will also be recalled that the Community Development Fund is distributed on the basis of numbers of licences current in a given chiefdom. If the Kono area is covered by exploration licences rather than being part of the Small-scale and Artisan mining regime, then little money will be disbursed to the Kono chiefdoms where, arguably, the needs are greatest. A solution to this issue could be that there is an additional charge (fee or royalty) placed on the exploration or mining licence holders in the Kono area, the funds derived from which would be directly applied to the social, infrastructural and environmental problems of the area.

The security situation in Kono is the most problematic in Sierra Leone although it is an extreme example, not a unique one. A broadly similar situation exists at Tongo and, potentially, may occur in any area where a new discovery is made and a ‘rush’ develops. Establishment of workable legislation and regulations for Kono will therefore likely have a wider application.

6. Overview.

The diamond security issues considered here can be considered in the context of two distinct time frames. In the short term there are major problems relating to the restitution of a functioning system of law and order to the diamond fields. In the longer term there is the need to establish a working system which is accepted by all the participants in the industry.

In the short term, and provided the peace process does not unravel, it can be anticipated that UNAMSIL will provide a framework in which most aspects of normal life can be resumed. However, UNAMSIL has neither the mandate nor, apparently, the will to become involved in the direct policing of diamond mining. It will therefore be necessary for a Sierra Leonean national organisation to take over the policing of the mining areas as soon as possible after completion of DDR. The only credible candidate is the SLP although they are short on manpower and resources.

In the longer term it is not considered likely that a security regime imposed by force will be stable and in the interests of the country. A working solution must derive from a consensus among the people living and working legally within the diamond fields. In order to achieve this, the following security-related issues will need to be clarified in the legislation and regulations to provide a clear basis for a workable security regime in the Sierra Leonean diamond industry.

- Clear divisions of responsibilities relative to the diamond industry will need to be established for the SLP, Mines Monitors, Customs and Excise and any other national organisations that can be considered to have security tasks. Once such responsibilities have been determined, appropriate resources for training and operating will have to be made available. Procedures for liaison between the different organisations will also have to be established.
- Local communities should be encouraged to work positively for the benefit of the security regime. This can be achieved through schemes whereby the local communities experience a clear material benefit from the proper functioning of the diamond industry. The best current example is the Community Development Fund, which can also be enhanced, regionally and in the specific case of Kono. A similar benefit can come from an environmental rehabilitation scheme for the former diamond mining areas and from community policing initiatives generally.

- The permissible security activities by mining rights holders and their agents should be stated in the legislation. This should cover matters such as: powers of search, detention and confiscation; ability to restrict access to designated areas; and the role of private security companies.
- Depending on the approach adopted for the Kono area, the ability of exclusive mineral rights holders to sub-contract and the terms on which this can be done should be established.

Appendix J

Diamond Smuggling and the Working on the Sierra Leone Diamond Market

1. Introduction.

It is widely agreed by observers of the Sierra Leonean diamond industry that it has been characterised for most of its life by smuggling (Hall, 1969; Greenhalgh, 1985; United Nations Panel of Experts on Sierra Leone, 2000). The intensity of smuggling has varied from the relatively minor to the chronic such that a major part of the diamond resource has left Sierra Leone without the public purse receiving any direct benefit. The matter has given rise to a number of amusing and racy accounts (e.g. Fleming, 1956; Harbottle, 1976; Kamil, 1979) largely reflecting the at-times intensive activities undertaken to attempt to stamp it out. Smuggling has also been intimately involved in the corruption that has undermined the fabric of Sierra Leonean society.

The issue of conflict diamonds has refocused attention on the smuggling of diamonds from Sierra Leone, as it was realised that the diamonds involved in the arms trade were leaving Sierra Leone clandestinely (United Nations Panel of Experts on Sierra Leone, 2000). Indeed there have been statements to the effect that the solution to the conflict diamonds problem is also a solution to smuggling (e.g. De Beers, 2000). However, it is necessary to be realistic about this problem. Diamonds have been smuggled from almost all known diamond producing countries throughout history. The wide distribution, relative ease of mining and difficulties to policing presented by the environment also mean that in Sierra Leone is particularly favourable territory for the diamond smuggler. Ultimately the realistic goal is not to try to completely stamp it out but to try to ensure that only a rump is smuggled and that the great majority of the diamond trade passes through official channels. Finally it may be noted that it is not just diamonds that have been smuggled from Sierra Leone, but also such as gold, coffee and cocoa (Momoh, 1988b).

2. Reasons for smuggling.

The reasons for smuggling are complex (cf. Green, 1969; Anon, 1996) and the economic consequences of smuggling can vary according to those reasons.

- Diamond theft. Diamonds that have been stolen are likely to be smuggled to a location where they can be legitimised.
- Price differentials. Where a price advantage to a seller is greater than the cost of smuggling, diamonds will move to the location with the higher price. Taylor (1974) considered that this was probably the major reason for smuggling from Sierra Leone to Liberia during periods when there was little difference in nominal taxation between the two countries.
- Requirement for hard currency. Underdeveloped economies frequently have a limit to the total useful economic investment that can take place in any one year. Where diamond trading takes place in local currency, local dealers will consequently wish to convert part of their earnings into hard currency and this is most easily done by smuggling.
- Tax evasion in the exporting country. Local taxes, whether applied to diamond exports or to profits made on diamond trading will be balanced against the costs and risks of smuggling. Above a certain level of taxation, smuggling becomes attractive. Diamond dealing is also normally a low margin business (typically less than 5% on any given export parcel) and hence the evasion of even low rates of tax can result in a very large increase in the margin.
- Tax evasion in the importing country. It is often forgotten that a diamond exporter always does business in a second country. He may therefore smuggle to evade taxes in the importing country. Thus, for example, almost no import taxes are imposed by major importing countries and others have created special duty-free zones for diamond sorting and forwarding.
- Money laundering. Diamond trading is normally carried out in hard cash. Diamond is therefore an attractive medium for those wishing to legitimise cash generated in such activities as the drug trade. The low level of regulation in many diamond producing countries is also conducive to this activity.
- Purchases of illegal products (such as armaments) by organisations that are themselves illegal (such as rebel groups). This motivation to smuggling may be at the source of the 'conflict diamonds' issue (although a significant proportion of UNITA's diamond sales may well have been legal).
- Capital flight. Diamond is a very concentrated form of wealth. Even industrial diamonds valued at $10/ct are more than five times more valuable than gold. Historically, diamonds have been seen as a means whereby refugees have been able to transfer wealth. In more recent years, diamonds have also been used to transfer wealth from the third world to the first.

- Concealment of wealth. This is frequently mentioned in Africa as a reason for smuggling. For a variety of social reasons there are those who are concerned that their true wealth is understated and hence a proportion of their business is conducted clandestinely.

- Personal psychology. Certain people appear disposed to work outside a system rather than within it. One of those interviewed during compilation of material for this report recalled a conversation with Jamil Said. Jamil Said was asked whether he would prefer to earn 50 cents in the parallel economy or 1 dollar legally. His stated preference was for the 50 cents.

Diamonds may be smuggled for any one or for a combination of the above reasons. The complexity of the motivations underlines the difficulties attendant on attempts to control this aspect of the diamond business. A contrasting aspect, however, is the subjective and changing nature of diamond value. Those not closely involved in the diamond trade cannot know the value of a given parcel of diamonds with any confidence. This factor has probably acted to limit the involvement of organised crime in diamond smuggling. However, a corollary of this is that most diamond smuggling has been carried out by persons that have links with the diamond trade.

The economic impact of smuggling will vary depending on the motivation of the smuggler. For example, if the smuggler is a diamond dealer who is primarily concerned to evade tax, then it is likely that more than 90% of the value of his smuggled goods will return to finance further purchases. Moreover, the prices such a smuggler pays need not be less than those of the official market (indeed they may even be higher). The negative effects of this form of smuggling are reduced government revenues in the short and long term and a likely squeezing out of legitimate buyers in the long term, thus causing a further decline in government revenues. In contrast, diamond smuggling for reasons of capital flight will result in a complete removal of the proceeds from the economy of origin. The effects are clearly entirely negative.

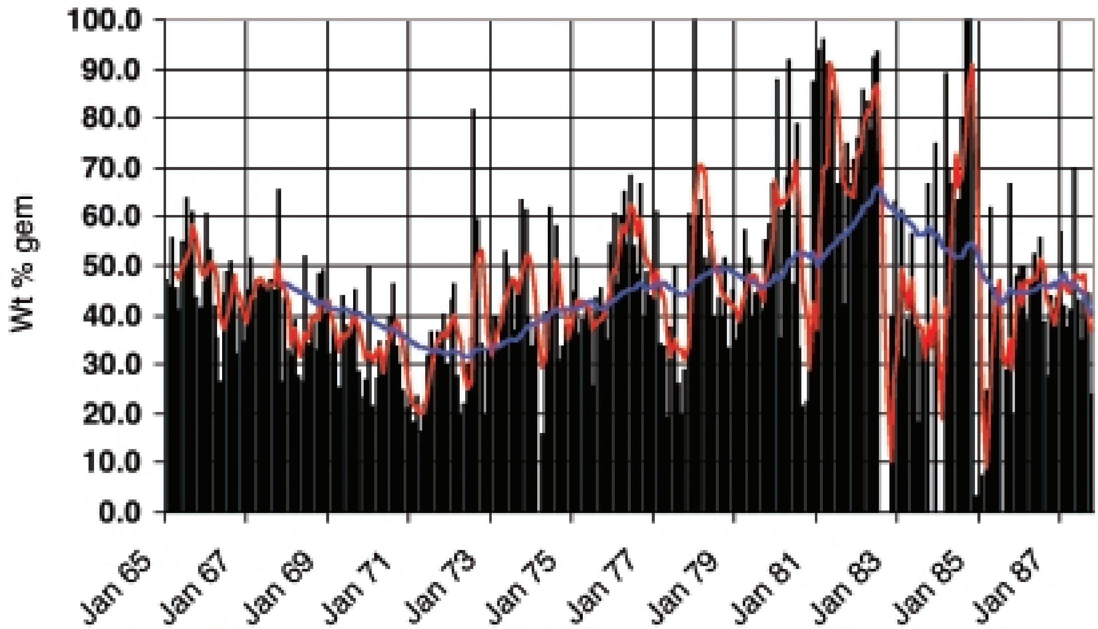
Finally, it should be appreciated that, historically, the diamond market in Liberia has been a form of competition for that in Sierra Leone. There will therefore have been occasions when that competition has been effective in ensuring that the prices on offer in Sierra Leone (including the effect of export tax) are maintained at a high level (Appendix A). This would be particularly important for the internal Sierra Leonean market during periods when the official export channel was a monopoly.

3. Diamond smuggling from Sierra Leone.

By its nature, there are no good statistics on the quantity or value of the diamonds smuggled from Sierra Leone. Most estimates apply to individual years, are generally based on anecdotal evidence and may be exaggerated for journalistic impact. One exception to this rule is the work of Taylor (1974) who developed a formula based on an idea suggested by Van der Laan (1965) to calculate annual values of diamonds smuggled (see also Zack-Williams, 1995). The formula operates on the assumptions that the 'natural' ratio of gem-quality to industrial-quality diamonds in Sierra Leone is 1 and that only gem-quality diamonds are smuggled. The extent to which the percentage of gem quality diamonds bought by the GDO is less than 50% is therefore a direct measure (on this formula) of the amount of smuggling. The formula can be criticised because (a) the ratio between gem- and industrial-quality diamonds is not a natural factor and varies with time according to the requirements of the diamond market; (b) the ratio will also vary from location to location around the country; (c) at least some industrial diamonds will be smuggled out of Sierra Leone; (d) there have been periods when diamonds have been smuggled into Sierra Leone (e.g. from Guinea); (e) there are difficulties in classifying Sierra Leone rough into simple gem/industrial categories because, for example, of the high proportion of coated stones; and (f) it is possible that at certain times diamonds have been falsely classified as 'industrial' in order to undervalue goods for export tax valuation purposes (cf. Wharton-Tigar, 1987).

However, notwithstanding these problems, it can be conceded that the general line of thought is likely to be correct and that in times of high levels of smuggling the proportion of gem-quality diamonds passing through the GDO is likely to be reduced, and vice-versa. Too much reliance, however, need not be placed on figures for short periods of time or for periods when very small quantities of diamonds were being officially exported. Accordingly, the percentage of gem-quality diamonds purchased by the GDO has been examined to establish whether they may be used as a surrogate measure of diamond smuggling. Figure 2 graphs this variable for the period 1965 to early 1988 for when monthly statistics are available.

Figure 2: Long-term movements in the percentages of gem-quality diamonds purchased by the GDO/GGDO. The red line is a four-month moving average and the blue line is a three-year moving average. Based on figures from the Annual Reports of the Ministry of Mines and from the Bank of Sierra Leone Economic Review.



Examination of the graph reveals some major trends and shorter periods seemingly characterised by low proportions of gem-quality diamonds in the GDO purchases. Long-term trends that can be identified are as follows:

- A general decline in gem-quality proportion through the 1960s reaching a bottom around 1971/2. During this period the percentage of gem-quality diamonds in GDO purchases fell from 45-50% in 1965 to at or below 30% in 1971.
- A steady rise in the proportion of gem-quality diamond being exported through the 1970s into the early 1980s. By the end of this period the proportion of Sierra Leone diamonds being classified as of gem quality had risen to around 70%.
- A second period of steady decline occurred throughout the remaining period of the 1980s at the end of which gem quality diamonds made up around 40% of the Sierra Leonean official exports.

In interpreting these trends both local and international factors must be considered. Throughout the period Sierra Leonean diamonds have remained a high-quality production that was desirable on the world market. However, during the period from the late 1970s onwards there has been a steady encroachment on the industrial diamond market by synthetic diamonds and there has also been the remarkable growth in the cutting of small, poorer quality diamonds in the so-called 'Indian' or near-gem categories. These two effects have resulted in a significant proportion of what were once considered industrial diamonds being re-categorised as 'gem'. It is therefore considered that the steady long-term rise in the proportion of gem-quality diamonds through the 1970s and into the early 1980s is likely predominantly to reflect this international change in the diamond market.

The two periods of declining proportions of gem-quality exports must be explained in another way and the events that occurred during both these periods suggest that it is reasonable to consider that they both result from, in major part, smuggling activities. Reasons for this are discussed below.

It is generally assumed that historically Liberia has provided the principal outlet for Sierra Leone's smuggled diamonds. If that were correct, then an inverse relationship may hold between Sierra Leonean (GDO) exports and Liberian exports. The two are graphed in Figure 3.

Figure 3: Graph of GDO purchases (purple bars) and Liberian diamond exports (blue bars) between 1956 and 1989.

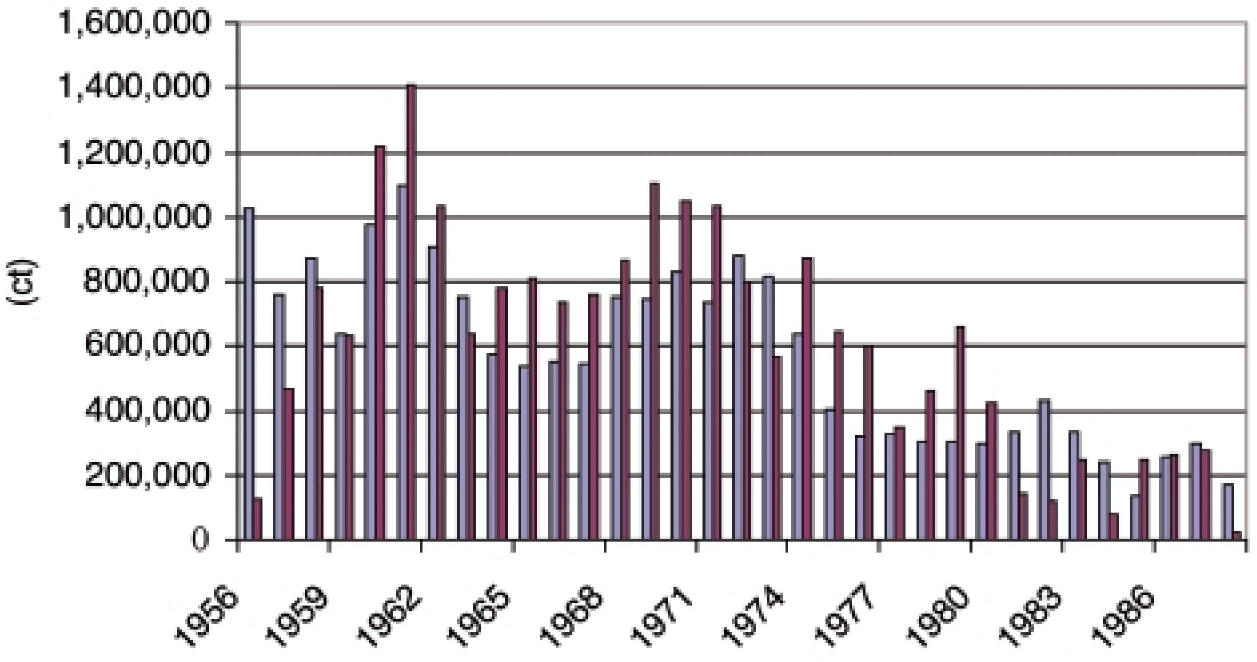
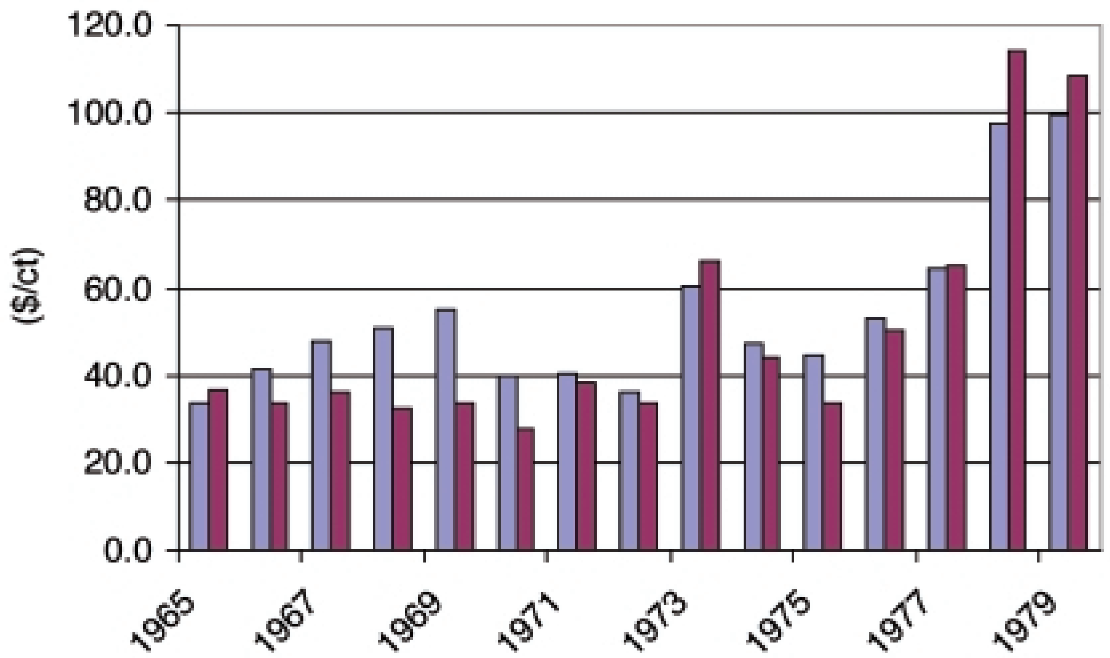


Figure 3 lends only partial support to the contention. There appears to be some such relationship in the mid 1950s, around 1971 and 1973, and also in the early 1980s. The early period is indeed known for its significant smuggling as the ADMS was becoming established and the last period, as discussed below, can be shown to be one when the diamond market was particularly dysfunctional in Sierra Leone. The two other periods in 1971 and 1973 approximately coincide with periods when there were low proportions of gem-quality diamonds on the Sierra Leonean market. However, for the greater part of the time, the exports from the two countries are largely positively correlated. This does not mean that no smuggling is taking place but that other factors are relevant. One such is diamond production from Guinea, which also has been smuggled through Liberia (and at times through Sierra Leone). For example, Hall (1969) notes that smuggling was significantly decreased in the early 1960s and 1960 and 1961 were indeed record years for Sierra Leone ADMS exports. They were also record years for Liberia. It may not be coincidence that in 1961 a state monopoly on diamond mining and marketing was established in Guinea. It can also be anticipated that with a continuing but variable proportion of Sierra Leonean diamonds always being smuggled then a year of high production in Sierra Leone will almost inevitably also be a high smuggling year. Particular significance may therefore attach to the periods when the trends in the two sets of figures are indeed opposed.

Taylor (1974) suggested that price differentials between Sierra Leone and Liberia were likely to be a major factor in determining the amount of diamonds being smuggled out of Sierra Leone. It is difficult to get a long time series of actual Liberian export diamond values as, for many years, the Liberian export values were recorded as the declared value of the exporter (i.e. the were very much undervalued). However figures are available for the 1965 to 1979 period and are graphed in Figure 4.

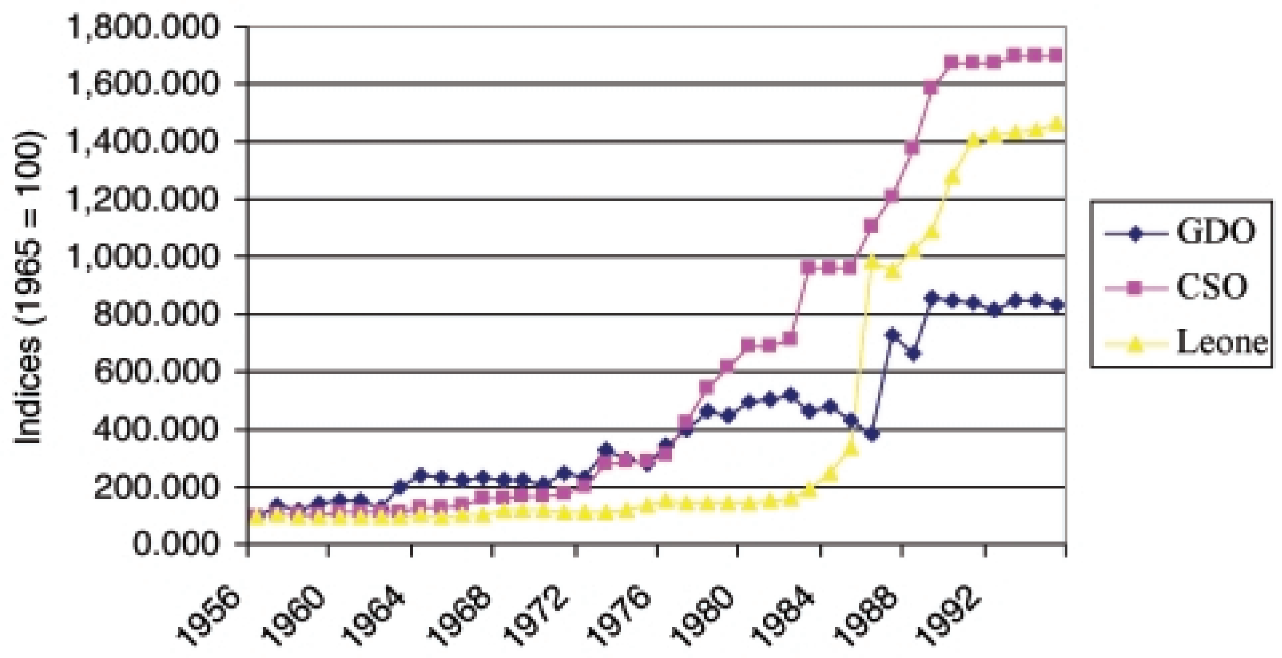
Figure 4: Relative export diamond values between Liberia (blue columns) and Sierra Leone (purple columns) between 1965 and 1979.



It is apparent that for much of this period Liberian prices were indeed higher than those in Sierra Leone, the difference being particularly marked in the late 1960s and the mid 1970s. Since it is generally accepted that the Sierra Leonean diamonds are of a higher quality than those mined in Liberia and also Guinea (with the exception of the Banankoro area), the fact that higher prices are being paid in Liberia is prima facie evidence for smuggling.

Long-term price trends may therefore be an important dynamic in the Sierra Leonean diamond industry. Figure 5 compares the long term trend in diamond prices paid in Sierra Leone to the long-term trend in rough diamond prices as indicated by the increases made from time to time by the Central Selling Organisation (De Beers). Both time series are expressed as indices in which 1956 (the year when the ADMS started) is 100. For comparison the nominal value of the leone against the US dollar is also graphed, this also being indexed against its 1956 value.

Figure 5: Indices, with 1956 = 100, of GDO diamond prices paid, CSO rough diamond price increases and the Le:US$ exchange rate.



The graph shows two distinct periods. Between 1956 and the late 1970s in Sierra Leone the diamond prices paid were full, even showing a trend ahead of 'average' CSO prices. Since the late 1970s, however, prices paid in Sierra Leone have significantly lagged behind those in the rest of the world. Certain comments are necessary to fully understand the implications of the graph.

- The seemingly better performance of the Sierra Leone price index in the 1960s and early 1970s need not be surprising. The CSO index is generalised for all categories of rough and the Sierra Leone production generally occupies the better part of the diamond spectrum and may well have experienced better price rises than 'average' rough.
- The same argument, however, can clearly not be applied to the post-late 1970s period. Sierra Leone rough remained highly desirable in the 1980s but prices in Sierra Leone were static to falling until 1988. Clearly there was a major dysfunction in the diamond market in Sierra Leone during this period. It may be noted that there is some uncertainty in the CSO index around 1979/80 because this was a period when the CSO introduced temporary price surcharges on the diamonds they were offering at their sites (Koskoff, 1981). Conversely as it may seem, this was part of a campaign to lower prices in the open market, which the CSO

had thought had become too far out of line with the long-term market fundamentals. However, this issue only focuses attention on the lack of a peak in the open-market prices paid in Sierra Leone during this period.

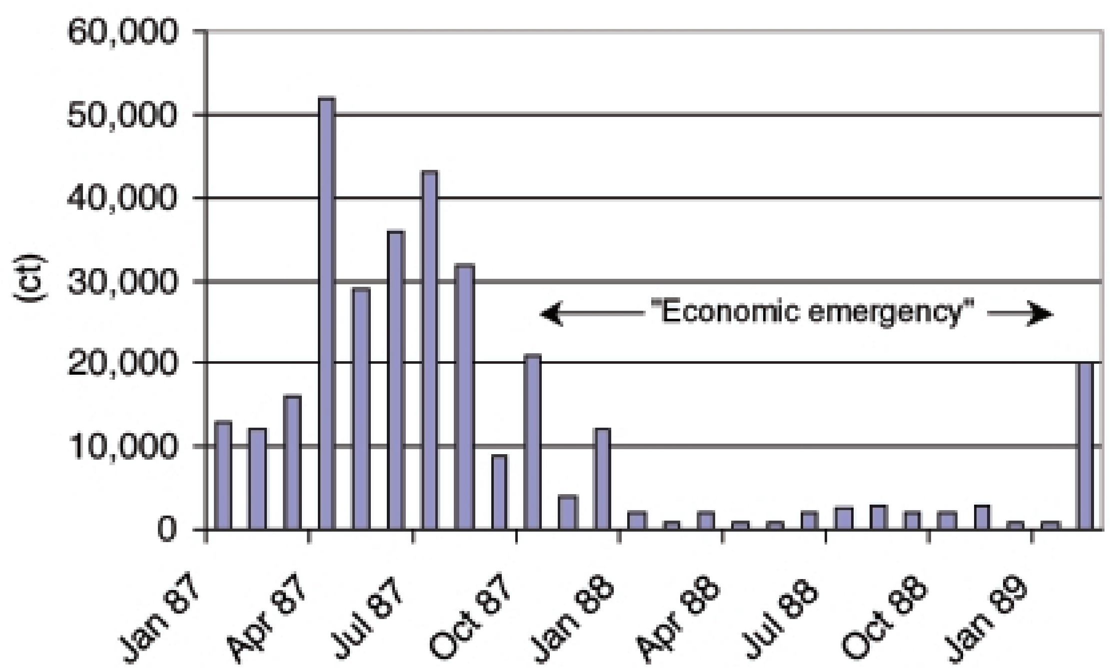
- In around 1988, diamond Sierra Leonean prices increased broadly in sympathy with the world trend. The 1988 figures must be treated with caution, however, as they are based on almost no exports at all (see below). However, the higher prices have generally been maintained during the 1990s although there has been a tendency to fall as compared to a rather slow CSO average increase.

It should be repeated that it is very unlikely that the final value (e.g. in Antwerp) for Sierra Leone rough was static or even declining during much of the 1980s. What Figure 5 implies is that for the majority of the period since the late 1970s the prices paid in Sierra Leone have fallen behind world prices and that profits on these diamonds are being taken outside Sierra Leone. This represents a form of market manipulation giving rise to capital flight. On the assumption that Sierra Leone prices had maintained the general relationship with CSO prices between 1979 and 1986 that they had displayed for the previous 20 years, it can be calculated that there was a net loss to the Sierra Leonean economy of around $210 million during this period. This is a minimum figure for it is based on the quantities of diamonds purchased by the GDO which fell dramatically during this period (e.g. from 655,000 ct in 1979 to 264,000 ct in 1986 and attaining a nadir of 80,000 ct in 1984, Figure 3). Such a fall in a short period of time would undoubtedly largely reflect increased smuggling due to the poor internal prices available.

For the great majority of the time period being considered, diamond buying in Sierra Leone has been in leones. Figure 5 shows that for much of the period until the mid 1980s the leone was relatively stable against the US dollar, although the following devaluations can be noted: 1968 – 17%; 1975 – 16% and 1976 – 19%. The index in Figure 5 is based on the official exchange rate and does not take into account the introduction in 1983 of the 'commercial leone', which was equivalent to a 100% devaluation. From this time onwards the leone has been an increasingly weak currency and there is a clear inverse relationship in both the 1983-1988 and the 1990s periods between the depreciation of the leone and the GDO/GGDO diamond price index.

In November 1987 the crisis in the general economy and the collapse in the value of the leone resulted in the imposition of the Economic Emergency Programme. In the diamond sector this involved the monopolisation of diamond export pricing by the GGDO and the requirement that diamond exporters should deposit 100% of their hard currency earnings with the Bank of Sierra Leone. This emergency programme temporarily both reduced inflation and halted the slide in the leone but the impact on the diamond market was disastrous (Figure 6).

Figure 6: Diamonds purchased by the GGDO before and during the period of the Economic Emergency Programme.



The market, which had shown sporadic signs of health during 1987, was almost killed overnight. Indeed during the second half of 1988, no diamonds at all were officially exported from Sierra Leone. With so few diamonds being purchased at all, the statistics for the percentage of gem quality diamonds (Figure 2) are of little meaning and this period of major smuggling does not appear in them. It is only with the introduction of the New Mining Policy in February 1989 that significant exports once again occurred.

4. Summary.

The major trends that appear to have been identified in the operating of the diamond market and in smuggling and the implications that they have for policy towards the diamond industry are the following.

- During the mid to late 1960s there appears to have been a long-term general increase in smuggling. This seems to have been primarily motivated by a steadily increasing price differential between Sierra Leone and Liberia. A number of other factors all appear to have contributed to the trend: (a) political instability due to the contested result of the elections in March 1967 and the consequent military coup; (b) the decisions by the military government in June 1967 to impose a turnover tax on the main diamond dealers based on their sales to the GDO and to increase the export tax to 10%; and (c) the significant devaluation of the leone in 1968. The turnover tax was eventually removed in 1969 but the overall trend appears only to have righted itself in 1971 when prices between the two countries almost equalised, particularly when taking into consideration the costs of smuggling. The serious downturn in the global diamond market in 1970 probably was a major factor in this equalisation.

- At some point in the late 1970s the Sierra Leonean diamond market started to become dislocated from the world market trends such that world price increases were not being passed on to the local dealers and diggers. This change may be dated to around 1979, when the price trend divergence became distinct. With the presently available data it is difficult to identify a particular event or events that may have given rise to this dislocation. It can be noted that the period 1979 –1986 largely coincides with the latter years of the Stevens administration when Jamil Said had his greatest influence on all aspects of the diamond trade. It is also notable that this period coincided with the most intense period of the Lebanese civil war and diamond wealth from Sierra Leone may have been used to finance arms purchases for this war – a precursor of the 'conflict diamonds' issue or recent years. The period 1979-1986 is probably marked by a predominance of smuggling motivated by reasons of abstraction of money from Sierra Leone for non-diamond dealing purposes (e.g. capital flight, illegal purposes).

- In the early 1980s the dislocation that initially appeared in the diamond market in the late 1970s became acute. GDO purchases fluctuated markedly, with two periods, one in August to October 1982 and the other between October 1983 and February 1984 when almost no diamonds were purchased at all. No particular policy changes have been identified to help explain these major downturns in the Sierra Leonean diamond market. The government, however, was experiencing an acute shortage of foreign exchange and its periodic lack of availability may well have been the prime reason for erratic upsurges in smuggling.

- A readily recognisable event was the establishment of PMMC in August 1984 (Appendix A). This created a quasi-monopoly situation for diamond exports. Prices dropped, and less than 27,000 ct were exported officially between September 84 and March 85.

- The acute economic problems experienced in the early to mid 1980s became substantially worse for the Momoh government and the near-freefall of the leone in 1986 resulted in the Economic Emergency programme of 1987 to 1989. The economic emergency legislation confirmed the GGDO as a monopoly exporter of diamonds. In addition, all foreign exchange earnings (not just related to diamonds) were to be surrendered to a bank in Sierra Leone. All economic activity in the country (including diamond dealing) was to be carried out in leones, a currency in which there was no confidence. It may be noted that during the economic emergency the GGDO marketed its diamonds via a series of tenders and, notwithstanding the small quantities actually marketed, achieved a much fuller price for its diamonds that had been happening previously. As noted earlier, however, the overall policy was unacceptable to diamond dealers and almost all of Sierra Leone's diamond production was smuggled during this period.

- The trade did not revive until the New Mining Policy was introduced in early 1989. This policy removed the GGDO exporting monopoly, and introduced an export fee of 2%. Minimum export targets had to be met (average of US$500,000 per month) in order retain a licence. However, 60% of export earnings were to be deposited with the Bank of Sierra Leone. This policy can be considered partially successful as official exports returned. However, the continuing use of the leone for diamond purchases undid much of the policy and resulted in the use of 'cheap' leones to undercut official market transactions. Diamond exporters then had either to engage in illegal activities (such as smuggling) or to become uncompetitive.

- Diamond buying in hard currency (US dollars) was instituted in 1992. However, and coincidentally, from this time forward the country has been plagued by political, economic and security instability (Appendix A). Consequently there have been few (if any) periods when there was a strong motivation to do other than export capital from the country and diamond smuggling has been rife, with by the end of the 1990s almost all production being smuggled.

5. Conclusions.

The above review reveals that the diamond trade is highly sensitive to a number of factors and that no single variable is a dominant one in ensuring that diamonds are channelled through the official channels. The following points seem important in maximising the official exports.

- A competitive price must be available in the Sierra Leone market. By a competitive price is meant one that closely reflects the prices and price trends in world markets for Sierra Leonean quality diamonds. Periods of monopoly or quasi-monopoly exports where the monopolist exporter also sets the price tend to coincide with periods of high levels of smuggling;

- Diamond sellers must have confidence in the currency in which they are being paid. In practice this means that the currency must be a hard one, traditionally US dollars in the diamond industry. Use of a rapidly depreciating currency ensures that smuggling will take place. It is also an invitation to circumvent official channels in order to acquire 'cheap' local currency and undercut market-rate diamond prices. Acceptance of such a situation will be effective in driving out quality diamond trading companies;

- Diamond sellers should not have to forfeit part of their hard currency earnings, as this obviates the use of hard currency in the trade. This is an open invitation to smuggle at least a portion of purchases;
- The level of taxation should be sufficiently low not to undermine the price advantage of buying and selling in Sierra Leone;
- The country must be perceived as being stable both politically and economically as instability encourages capital flight.

Appendix K

UN Security Council Resolutioin 1385 (2001)

United Nations S/RES/1385 (2001)

Security Council

Distr.: General

19 December 2001

Resolution 1385 (2001)

Adopted by the Security Council at its 4442nd meeting, on 19 December 2001

The Security Council,

Recalling its previous resolutions and the statements of its President concerning the situation in Sierra Leone, and in particular its resolutions 1132 (1997) of 8 October 1997, 1171 (1998) of 5 June 1998, 1299 (2000) of 19 May 2000 and 1306 (2000) of 5 July 2000,

Affirming the commitment of all States to respect the sovereignty, political independence and territorial integrity of Sierra Leone,

Welcoming the significant progress made in the peace process in Sierra Leone, including in the disarmament, demobilization and reintegration programme, and the efforts of the Government to extend its authority over the diamond-producing areas, with the assistance of UNAMSIL, but noting that it has not yet established effective authority over those areas,

Expressing its continued concern at the role played by the illicit trade in diamonds in the conflict in Sierra Leone,

Welcoming General Assembly resolution A/RES/55/56 of 1 December 2000, as well as ongoing efforts by interested States, the diamond industry, in particular the World Diamond Council, and non-governmental organizations to break the link between illicit trade in rough diamonds and armed conflict, particularly through the significant progress made by the Kimberley Process, and encouraging further progress in this regard,

Welcoming the establishment of a certification regime in relation to Guinea's exports of rough diamonds and the continued efforts of the Economic Community of West African States (ECOWAS) as well as West African countries towards developing a region-wide certification regime,

Emphasizing the responsibility of all member States, including diamond importing countries, for fully implementing the measures in resolution 1306 (2000),

Taking note of the views of the Government of Sierra Leone on the extension of the measures imposed by paragraph 1 of resolution 1306 (2000), *Determining* that the situation in Sierra Leone continues to constitute a threat to international peace and security in the region,

Acting under Chapter VII of the Charter of the United Nations,

1. *Welcomes* the establishment and implementation of the Certificate of Origin regime for trade in diamonds in Sierra Leone, and the export of rough diamonds from Sierra Leone certified under that regime;

2. *Welcomes* reports that the Certificate of Origin regime is helping to curb the flow of conflict diamonds out of Sierra Leone;

3. *Decides* that the measures imposed by paragraph 1 of resolution 1306 (2000) shall remain in force for a new period of 11 months from 5 January 2002, except that, pursuant to paragraph 5 of resolution 1306 (2000), rough diamonds controlled by the Government of Sierra Leone under the Certificate of Origin regime shall continue to be exempt from these measures, and affirms that, in addition to its six-monthly review in accordance with paragraph 15 of resolution 1306 (2000), at the end of this period it will review the situation in Sierra Leone, including the extent of the government's authority over the diamond-producing areas, in order to decide whether to extend these measures for a further period and, if necessary, to modify them or adopt further measures;

4. *Decides also* that the measures imposed by paragraph 1 of resolution 1306 (2000) as extended by paragraph 3 above, shall be terminated immediately if the Council determines that it would be appropriate to do so;

5. *Requests* the Secretary-General to publicize the provisions of this resolution and the obligations imposed by it;

6. *Decides* to remain actively seized of the matter.

Abbreviations

AARLF	American Aid Revolving Loan Fund
ADMS	Alluvial Diamond Mining Scheme
AFRC	Armed Forces Ruling Council
BP	Minerals BP Minerals International Ltd
CAST	Consolidated African Selection Trust Ltd
CDF	Civil Defence Force
CMRRD	Commission for the Management of Strategic Resources, National Reconstruction and Development
DCSL	Diamond Corporation of Sierra Leone Ltd
DDR	Disarmament, Demobilisation and Reintegration Programme
DICOR	Diamond Corporation Ltd
DICORWAF	Diamond Corporation of West Africa Ltd
DIMINCO	The National Diamond Mining Company (Sierra Leone) Ltd
ECOMOG	Economic Community of West African States Monitoring Group
ECOWAS	Economic Community of West African States
GDO	Government Diamond Office
GGDO	Government Gold and Diamond Office
HRD	Hoge Raad voor Diamant vzw (Diamond High Council)
IDB	Illegal diamond buying
IDM	Illegal diamond mining
ISO	International Standards Organisation
NCRRR	National Commission for Reconstruction, Resettlement and Rehabilitation
NDMC	The National Diamond Mining Company (Sierra Leone) Ltd
NGO	Non-governmental Organisation
NPRC	National Provisional Ruling Council
PMMC	Precious Minerals Marketing Company (SL) Ltd
RUF	Revolutionary United Front
SLA	Sierra Leone Army
SLP	Sierra Leone Police
SLST	Sierra Leone Selection Trust Ltd
TRC	Truth and Reconciliation Commission
UNAMSIL	United Nations Mission in Sierra Leone
WDC	World Diamond Council

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