Diamond Industry Annual Review

Democratic Republic of the Congo 2005

Editorial

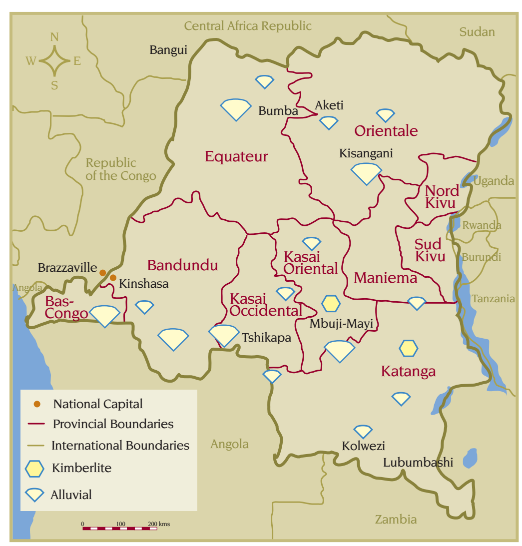
2004 was an important year for the Democratic Republic of the Congo, and for its diamond industry. Despite a series of violent flare-ups in Ituri and elsewhere, the coalition government held together, making its way towards the elections of 2006. The commitment by the UN Security Council to the DRC, in the form of the world's largest current peacekeeping mission, is reassuring – even if the force itself is small in relation to the task. In the diamond industry there were major government changes, with a new minister and a new director at the Centre for Evaluation, Expert Analysis and Certification (CEEC), which is responsible for managing the country's diamond exports and its Kimberley Process compliance. The DRC's diamond exports rose by 13% in value and 10% in volume compare to 2003, no mean achievement under the circumstances.

But diamonds, which represented 73% of the country's entire export earnings in 2004, remain the focus of a number of serious problems. An estimated $200-300 million worth of diamonds is still being smuggled out of the country. During 2004, the last of an estimated 200,000 Congolese artisanal diamond diggers were expelled from Angola, many of them returning to the DRC's diamond fields and lives of poverty. MIBA, the large diamond parastatal, continued its non-profit mode of production, while the only major private sector entrepreneur, the controversial Sengamines, halted production and was said to be in a state of intensive care. Artisanal producers, who number 700,000 or more, produced almost 85% of the DRC's diamonds by value in 2004, but their personal returns were meagre. Despite their huge contribution to the national economy, most continue to live in abject poverty. Mbuji Mayi, the centre of the country's diamond wealth, is a slum.

These problems have been pointed out in other places: in the first *Diamond Industry Annual Review* last year, and in a report co-published by Partnership Africa Canada and Global Witness, in 2004 – *Rich Man. Poor man – Development Diamonds and Poverty Diamonds: The Potential for Change in the Artisanal Alluvial Diamond Fields of Africa*. Serious problems relating to the country's implementation of the Kimberley Process Certification Scheme are spelled out in detail in a forthcoming report by Global Witness *Diamond Reconstruction and Corruption: An Overview of the DRC Diamond Sector*.

As it moves towards the elections of 2006, the DRC and its diamond industry face challenges that would daunt countries with less troubled histories and much greater capacities. It will therefore be important for friends of the DRC to assist as much as they can. It will also be incumbent upon the government to acknowledge and address those problems that are within its capacity to solve. The alternative to forward movement on all of these issues is too unpleasant to consider, for the Congo, and for all of its neighbours.

Extraction of gravel from the bottom of an underground mine (Majimba), the depth of which can be between 15 to 25 metres. (Katoka mine, 30 kms from Tshikapa)



the Diamonds and Human Security Project

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A Troubled Transition

Political transition in the DRC officially began in June 2003, following the establishment of a transitional government based on power sharing between the government and various rebel factions. Initially set for a period of two years, the transition was extended to mid-2006, after a failure to create transitional institutions needed before the elections, and a lack of pressure from the international community on the factions to comply with the deadline that had been set.

Continuing insecurity contributed greatly to "sabotaging" the election deadline. One of the major problems, and one that still exists, is that former belligerents integrated into the transition government were, in theory, supposed to hand over control of their armed militias to the new state army. In reality, however, most of the combatants remained under the authority of the same military strongmen as before. The plunder of the DRC's natural resources by various armed militias continued, and those who had illegally exploited these resources have not been held responsible. *Amnesty International* reported in July 2005 that arms continued to be smuggled to the DRC's armed militias from neighbouring countries, in spite of a United Nations embargo.

In September 2004, the UN and the Congolese government began disarming and reintegrating former combatants in Ituri Province. According to the UN Office for the Coordination of Humanitarian Affairs (OCHA), delays in disarmament, demobilization, reintegration and rehabilitation have led to the remobilization of militias and to general instability. By April 2005, about 10,000 combatants, 3,000 of whom were children, had laid down their arms, either voluntarily or under pressure. In spite of this progress, many soldiers still have no definite status; they are no longer soldiers, yet they cannot be considered civilians. Since no one seems concerned about their economic, social and political needs, they continue to terrorize local populations.

In March 2005, Hutu Rwandan rebels of the Hutu Rwandan Armed Liberation Forces (FDLR) – who were involved in the 1994 genocide and in the war raging in Kivu, where they have been entrenched since 1994 – announced their intention to stop fighting the Tutsi Rwandan authorities. But their announcement came to nothing. Ousting the FDLR from the DRC has become the key to peace in the region, and it is crucial to the holding of successful elections in the DRC. To do this, however, Rwanda must clarify and disclose information about FDLR members who may be guilty of war crimes, and it will have to offer more generous incentives to officers who will not be tried for such crimes, to return. These positive incentives must be coupled with coercive measures to convince FDLR soldiers that they have no choice but to disarm and return to Rwanda.

The voter registration process only began in June 2005, and faces huge logistical problems due to the difficulties in registering millions of people in a country whose infrastructure is limited. But the electoral process has evolved positively, and by September 2005, the number of people registered to vote had reached more than ten million.

Apparently determined this time to end the legitimacy crisis that has destabilized the Democratic Republic of the Congo and the Central African region for several decades, the international community currently supports a "minimalist" approach. It feels, and with good reason, that only elections – even if they are not completely successful – can break up the various factions. Elected officials will have the authority to speak on behalf of the Congolese people in democratic institutions that will benefit from international recognition. Some believe, however, that international legitimacy cannot take the place of national or domestic legitimacy. If the vote represents only 25% of registered voters, for example, it will pose a problem for the domestic legitimacy of institutions and those heading them, even if the elections are considered legitimate by the international community.

Some feel that the electorate, estimated at 28 million, should be reduced to 15 million, given the difficulty in registering all those old enough to vote. Although the number of electors would not affect the holding of elections, opponents of the minimalist approach refuse to peg the size of the electorate, which has been modified on paper, since no census has been taken for decades. This also leads some to question statistics on the actual size of the Congolese population, said to be 60 million.

MONUC

Established in the Congo since 2000, the United Nations Organization Mission to the Democratic Republic of the Congo (MONUC) was set up at the end of 1999 following the signing of the Lusaka Peace Accords. Acting under Chapter VII of the United Nations Charter, MONUC's mandate is to lend support to the peace process in the DRC. It is authorized to *take the necessary action to protect civilians under imminent threat of physical violence* in the Ituri and Kivu regions.

MONUC created an Electoral Assistance Division in compliance with Resolution 1493 of the Security Council. Given that the Independent Electoral Commission (IEC) is a constitutional body charged with organizing elections, the role of the Electoral Assistance Division is to support state authorities in the holding of free and fair elections. To this end, it has two main missions: i) to contribute to the strengthening of institutional capacities and ii) to coordinate international aid for the election process (other United Nations agencies, donors, and international NGOs).

MONUC is currently the largest of the UN's 17 peacekeeping missions worldwide. It is also the most costly, with an annual budget of nearly US$1 billion. In June 2005, the Mission numbered 16,193 peacekeepers, 231 civilian police officers and 2,418 civilian staff. However, in a country of nearly 60 million, with an area 80 times greater than Belgium and 5.5 times greater than France, surrounded by nine neighbouring countries, the number of peacekeepers is considered by most observers to be inadequate.

At a political level, the problems of good governance are complicated by the declared and the undeclared electoral ambitions of those heading the transitional institutions. Legally constituted political parties are authorized to organize public events to provide public information. But while they awaited enactment of the Elections Financing Act by the state treasury, Congolese political parties could only count on membership fees or donations, and so good governance has been neglected. Although the law regarding the organization and functioning of political parties prohibits "use by a political party of state goods and staff," members of the President's Office and the Executive Office have toured provinces, cities and districts under their parties' respective banners, obviously financed by the state.

The BBC reported that during the transition, President Kabila named people to head parastatal companies, individuals who were devoted to his cause and who would therefore be prepared to finance his next election campaign. Nominations of former belligerents in September 2005 to head parastatal companies were part of the peace accord to end the war. But the fight for control of these companies by rebel groups and the opposition underscores a fundamental problem: a fight for wealth and power eclipses the drive for reform. The upcoming elections provide an additional incentive for politicians. Since these companies are poorly managed and failing, it will not be difficult to gain control of them.

Dealers and buyers at the Salaute market, 60 kms from Tshilapa

New Diamond Polishing Venture

Diamonds mined in the DRC have always been exported in their rough state. However, a new high-tech polishing plant was built in Kananga, Kasaï Oriental, in 2004. The plant employs more than 300 people, and is owned by Emaxon Polishing, a subsidiary of the Israeli group Dan Gertler International (DGI). This is the same group that signed, through its Canadian subsidiary Emaxon Finance International, a trade agreement with the parastatal Bakwanga Mining Company (MIBA), causing controversy in 2003. Under the agreement, MIBA agreed to sell 100% of its production for four years to Emaxon 88. Emaxon bought the diamonds with a 5% rebate (later reduced to 3%) in exchange for a loan of US$15 million, which MIBA, desperate for financing, badly needed. The deal was brokered by the same Dan Gertler who had paid $20 million in September 2000 to obtain the DRC's diamond export monopoly, and whose contract was cancelled eight months later when the government opted to return to the free market.

The diamond economy in the DRC

The diamond industry in the DRC is one of the largest in the world. In 2003, the country ranked third by volume among the world's diamond producers, with an output of 27 million carats. Australia was first with an output of 33 million carats, followed by Botswana with 30 million carats. The DRC's diamond industry remains one of the country's main sources of foreign currency, far exceeding any other mining industry, including cobalt and copper.

The 2004 Annual Report of the *Centre d'Évaluation, d'Expertise et de Certification* (CEEC) states that official diamond exports reached nearly 30 million carats, and were evaluated at more than US$727 million (see Table 1). These figures represent a growth of 13% by value and 10% by weight over 2003. The rise in exports is largely due to an increase in artisanal production, which generated the lion's share of diamonds, as it did in previous years. Exports from the industrial sector fell compared with the previous year.

Although by volume the DRC ranks third in world production, the value of its output is relatively low. Exports averaged $24.26 per carat in 2004, about 10% of the run-of-mine average in Sierra Leone. Nearly 90% of the diamonds officially exported from the DRC are industrial-quality stones. These are low-quality diamonds used industrially for sawing and grinding, and to manufacture semi-conductors. Industrial diamonds gave DRC exporters an average of US$10 per carat in 2004. Only 10% of the country's exports during 2004 were gem-quality diamonds, with an average value of $139 per carat.

Official Diamond Exports of DRC

	Millions of Carats			Value US$ (millions)		
	2004	2003	Percentage of growth compared with 2003	2004	2003	Percentage of growth compared with 2003
Artisanal production	22.1	19.2	15%	616.7	524.1	18%
Industrial production	7.8	7.9	-1%	110.8	118.6	- 7%
Total	29.9	27.1	10%	727.5	642.7	13%

Source: Centre d'Évaluation, d'Expertise et de Certification du Congo

Despite new developments in 2004, and despite growth in diamond production and the discovery of new deposits, the diamond trade has contributed little to the socio-economic development of the population, or to diamond-producing regions. In 2005, DRC ranked 167th on the UN Human Development Index, on a list of 177 countries. The following indicators, drawn from UNDP's 2004 *Human Development Report*, paint a disastrous picture:

- Gross domestic product (GDP) per capita: US$650;
- Life expectancy: 41.4 years;
- Infant mortality rate: 129 per 1,000 live births;
- Mortality rate in children under the age of five: 205 per 1,000 live births.

The problem is partly due to the fact that the state treasury has tremendous difficulty recovering revenue from diamond production because of theft, illicit trade, corruption, mismanagement and war. In 2004, diamonds brought in US$23.7 million to the state treasury, which represents 3.25% of the total official export of $727.5 million. However, several estimates place the real production value as high as $1 billion. If this figure is correct, a quarter of the real production value evades taxation.

During 2004, the government took several measures aimed at cleaning up the industry, including:

- CEEC providing technical support to comptoirs;
- Increased involvement on the part of the *Service d'Assistance et d'Encadrement du Small Scale Mining* (SAESSCAM);
- Improved application of Kimberley Process internal controls;
- Greater involvement of international stakeholders and NGOs;
- Assignment of more law enforcement staff to MIBA sites;
- Expansion of government authority in the Upper Congo, Ituri and Kivu regions.

In spite of these changes, some of the statements contained in the 2004 issue of this *Annual Review* still hold true, particularly regarding smuggling, inaccurate valuations for purposes of tax evasion, secrecy, high levels of corruption, and an inability to properly define and quantify the extent of the problem.

Companies involved in the industrial mining sector, notably MIBA, 80% of which belongs to the state, do not contribute to government income. Since the start of the war in 1998, MIBA has been considered virtually bankrupt, to the extent that its revenue, which is reinvested in the company, is not taken into account in the state budget. This is also why the Bakandeja Commission on public companies, which published its findings in 2004, did not unfortunately study diamond mining companies, in spite of repeated calls from the International Monetary Fund for an audit of the mining sector. Delayed several times, the international call for tenders for an audit of MIBA began only in February 2005. The call for tenders for an audit of Sengamines, of which MIBA holds a 20% stake, followed in July 2005.

Given these facts, it is clear that authorities in Kinshasa have decided to exercise greater authority over diamond production and marketing operations, although how much time, money and logistics this will take is unknown.

The relative value of diamonds

The mining sector has always been the backbone of the country's economy, according to the Banque Centrale du Congo (BCC). In its 2002–2003 Annual Report, the BCC indicated that the mining sector generated 30% of GDP in 2002 and 38% in 2003. Clearly, the contribution made by this sector to the country's economic output rests on diamonds, and specifically on the artisanal exploitation of this mineral.

The mining sector plays an equally important a role in the generation of export revenue. Between 1993 and 2002, the mining sector generated an average of 71% of export revenue and, since 1997, diamonds have represented no less than half of this. Minerals and diamonds play an even more significant role today. In 2004, the value of mining sector exports was US$858 million, or 86% of total exports. Diamonds alone accounted for 73% of all DRC exports.

The country's second and third ranked minerals are cobalt and copper. Although cobalt's contribution to export revenue ranged between 7% and 20% between 1993 and 2002, copper, accounted for a paltry 5% of the value of minerals exported in 2002, down from 38% in 1992. Gold is not a huge factor, generating less than 3% of mining exports.

Given the importance of the diamond industry to the country's economy, it is disappointing that it does not contribute more meaningfully to national development and to communities in diamond producing areas.

Evolution of the Contribution of Minerals to DRC Exports (percentage)

	Diamonds	Cobalt	Copper	Gold	Other
1993	69		27	2	2
1994	73	19	6	1	1
1995	68	21	8	2	1
1996	72	16	8	2	2
1997	72	19	8	0.5	0.5
1998	75	20	4	0	1
1999	90	7	3	0	0
2000	75	17	8	0	0
2001	74	15	8	3	0
2002	73	20	5	2	0

Source: Banque Centrale du Congo

Disappearing Wealth – The Impact of Diamond Revenue on Development

Given the importance of the diamond industry, which sustains an estimated 800,000 people and their families, and which represents the DRC's largest source of foreign exchange, its activities should be expected to fuel the country's economy, and to provide benefits to diamond producing areas, especially to the city of *Mbuji-Mayi* — often called the diamond capital of the world. And yet it does not. The fees and taxes paid to the state, the activities of industrial companies and the enrichment of traders involved in artisanal production translate into few real development opportunities and little improvement in living conditions for the local population.

Artisanal miners, *négociants* and *comptoirs* pay export duties, annual licensing fees, artisanal miner cards, and mining and prospecting duties. This revenue funds the *Cadastre minier* (CAMI) and SAESSCAM, but most of the revenue circulates internally and has little effect on other social structures. In fact, while diamond exports grew by 13% in value in 2004, tax revenues from diamonds grew by just five per cent. The diamond industry, by far the country's largest exporter, represented about six percent of the country's entire tax revenue of $400 million in 2004.

It is surprising that there is no mention in the state budget of diamond revenue or the impact of diamonds on the economy. But the reason is simple: mining companies in general are considered semi-bankrupt and in dire need of financing. In principle therefore, MIBA's earnings are reinvested by the government into mines, labour, and infrastructure for the city of *Mbuji-Mayi*. While this stimulus should contribute to a safe and stable environment, the *Réseau européen Congo* says that "workers' salaries are paid randomly and irregularly, suppliers are not being paid, the health of workers and their families has become the workers' responsibility, transportation of workers has become haphazard, living conditions for company middlemen and managers are deteriorating day by day, and infrastructure (schools, clinics, hospitals, playgrounds, recreational clubs) are in a state of ruin."

Conditions like these result in unmotivated and impoverished workers who will further pillage MIBA's asset base, reducing its revenue potential. It remains to be seen if new investment in MIBA from Emaxon Finance International will put wind back in its sails.

The community infrastructure built by the only major private sector firm, Sengamines, (two schools, a workers' clinic, and a farming cooperative) seems laughable in view of the company's state of closure, if not collapse.

It is not surprising that the province of Kasai Oriental, where MIBA and Sengamines operate, and where huge volumes of diamonds are produced every year, is poverty-stricken. The following indicators were noted by the *Groupe d'Appui de l'Accompagnement pour le Développement Durable* (GAAD) during a workshop in *Mbuji-Mayi* in August 2004:

- An extremely dependent economy: most staple consumer items are imported from other provinces and countries;
- Poor nutrition: 42% of the population eat only once a day, and there is a 60% malnutrition rate among children under five;
- An educational system in decline: Kasai Oriental has a high rate of illiteracy and a decrease in the number of candidates sitting for state exams;
- Deteriorating health due to deplorable hygiene conditions, a high rate of infant (12.5%) and maternal mortality, increase in sexually transmitted diseases and declining life expectancy (41 years);
- Inadequate urban planning and road network: 130 major ravines identified on site; and
- Lack of electricity.

In *Mbuji-Mayi*, wealth coexists with dire poverty. A few individuals, both Congolese and foreigners, have enormous sums of money, but "fortunes" are often squandered because neither *négociants*, nor the rare artisanal miners who have managed to grow rich, can be bothered to invest meaningfully in their region. These people, referred to as – PDG, *preso*, *nvuandu*, *citanciste* and *mwamayi* – favour shows of wealth, including luxury cars, big motorcycles, flashy clothing, and lavish parties. Some of the more brazen displays of private wealth fuelled by diamonds can be seen in buildings going up all over the city without regard for urban planning or standards. Private schools are being opened, and semi-industrial companies are becoming popular investments.

This private wealth is in direct contrast to the erosion and ravines that ravage the city, and the absence of any real urban planning in the form of streets, running water and electricity. The potentially positive impact of the diamond industry is minimized because the wealth that is generated is not channelled into sustainable development, and there is no overall development policy with which to work. To make matters worse, the country's political instability and its widespread insecurity discourage long-term investment.

Taxes and Fees Paid by the Diamond Sector to the Treasury in DRC

(millions of US dollars)

	Export values	Fees	Contribution to export sales	Provincial taxes	Taxes on remuneration	Total taxes fees
2002	395.9	4.8	.8	2.9	4.0	12.5
2003	642.7	8.1	1.5	4	9	22.6
2004	727.5	9.6	1	3.8	9.3	23.7

Source: Centre d'Évaluation, d'Expertise et de Certification du Congo

Diamonds, an inexhaustible resource?

Rightly or wrongly, the people of *Kasai Oriental* believe that diamonds are gifts from nature and from the gods, that they are an inexhaustible resource, and that there will be diamonds as long as there is communion with their ancestors.

The sentiment of abundance is better understood when one considers that in the 1950s, diamonds could be found easily in the open in *Mbuji-Mayi* and surroundings. After a heavy rain, one could gather diamond chips from streams, and larger diamonds could be found less than a metre deep. As a result, the government allowed construction in *Mbuji-Mayi* only with special authorization. Only Forminière (now known as MIBA) was given the authorization.

Regardless of the fact that the surface and sub-surface belong to the state, local people have always claimed ownership of diamonds, and this was recognized under the new 2002 mining code. The state was obliged to liberalize the sector due to political, social and economic pressures. The pressures came to a head in 1979 when the local population turned on the government and decided to mine without permission. Local populations were massacred in *Katekalay*, and tensions ran very high. To calm things down, the local authority chose to liberalize the artisanal mining sector. From an economic standpoint, the state had hoped to generate revenues through taxes and licensing fees. From a social standpoint, it was advantageous for the authority to keep the local population busy. Through liberalization, the state ensured that the people of Kasai, who were seen as invaders, took ownership of their environment and remained in place.

The areas thus opened up were mainly located in the Kasai Oriental diamond-producing basin, over an area of about 9,000 to 10,000 km^2, with the exception of *Lusambo* and *Lodja*, in the northern district of the Sankuru, and in *Lubefu* and *Tshofa*, in the Kasai Oriental region of Kabinda. Today the diamond-producing basin is concentrated in the region of *Mbuji-Mayi* – in the city of *Mbuji-Mayi*, and in the district of Tshilenge. This zone is surrounded by a large network of waterways, the largest of which are the Mbuji-Mayi and the Sankuru Rivers to the east, and the Lubi to the west. The Mbuji-Mayi area is considered the richest diamond zone in the DRC.

Studies done by *Broederlijk Delen*, a Belgian NGO collaborating with GAAD, report that in 1992, industrially recoverable output had a projected lifespan of 80 years. This outlook should be revised downward to take into account the appearance of Sengamines on the scene.

In addition, the number of artisanal miners is growing daily. Where diamonds could once be found on the surface, miners now have to dig 10 to 15 metres, and sometimes up to 30 to 40 metres through subsurface galleries (called *majimba*) to find diamonds. Miners must even go beyond the outskirts of the city, formerly rich with stones, travelling as far as 150 kilometres to dig, as *Mbuji-Mayi* has been almost completely excavated.

The after-effects of the diamond trade on *Mbuji-Mayi* and surroundings will be dramatic. Severely "deconstructed" by mining operations, *Mbuji-Mayi* may itself be at risk of collapsing because of the underground galleries eating away at it.

A large proportion of the indigenous populations believe the presence of diamonds to be a blessing from God or nature. *Creusers* often perform rituals prior to digging to gain favour from their ancestors. Here, we see the mystical aspect of these operations, where the local religious authority plays a huge role in the lives of miners, who believe they have the power to create or remove diamonds from a site.

Research done by Partnership Africa Canada in *Mbuji-Mayi* has made it possible to corroborate this in the field. Increasingly, clerics and other men of God are being sought out by *creusers* to increase their diamond finds.

This is why everything other than diamond mining – including teaching, farming and raising animals – has been shunted aside. The cost of living is high in *Mbuji-Mayi* because of a lack of sufficient quantities of food, since most of the population is busy working in the mines. Up to 80% of a population of about four million live off the proceeds of diamond production.

Under these conditions, the after effects of the diamond trade may prove disastrous and result in the disappearance of the city and of its inhabitants.

Child Miners

The liberalization of trade in the artisanal diamond production sector opened the door to anyone willing to work and able to survive in the mines. This resulted in a diamond rush, a social phenomenon amplified by poverty, an absence of alternatives, and a gold-rush mentality. Children have not escaped this run on diamonds. They usually start working in the mines between the ages of 9 and 16, in violation of every regulation written to protect them. Under the Congolese constitution and the Convention on the Rights of the Child, "child" means any minor, girl or boy who has not yet reached the age of 18.

The problems associated with child miners is closely tied to the socio-economic situation of the Congolese in general, and of the rural populations in particular, and is not unique to diamond mining. But the mining areas are surrounded by poor populations who prefer seasonal work in mining over agriculture, because it pays better. This is why entire families (mother, father and children) do this backbreaking work.

Naturally, children are easy prey for crooked operators who do not hesitate to use them as beasts of burden, often with the consent of parents. Child miners don't go to school and are for the most part illiterate (one in five can barely read or write). To better understand this phenomenon, an inquiry was carried out by the *Ligue congolaise des droits de l'Enfant* in March 2003, dealing with children's school attendance. Among 450 children interviewed:

- 48% had already failed at least one school year due to a lack of financial support;
- 32% of parents were unable to pay for their children's schooling regularly;
- 82% had no access to libraries.

Children working at the mines at Matshibola.

The logical outcome of this bleak picture is that in an artisanal mining milieu, unschooled children systematically end up in the mines. Children are a good source of cheap labour, and are given the hardest of jobs, such as moving the earth out of pits and shafts using wheelbarrows and baskets. They are sometimes lowered into small holes or pits by ropes held by an adult miner on the surface. This work is very dangerous due to the risk of landslides. Children are also used to replenish miners' basic supplies, particularly food. They must sometimes walk for kilometres between villages, urban supply centres and quarries, and they must often prepare food for the miners when they get back to the mine.

Child miners are paid less than their adult counterparts. Children are sometimes "commissioned" by their own parents or other agents who deal directly with the operator. These people take the child's salary at the source, and no one knows how much a child miner actually earns under these conditions. Those who work of their own volition are not spared by the "casino economy" either. As soon as they are paid, they return to their village, where their money is spent within days, forcing them back to the pits.

Child miners fall into two categories: permanent workers hired for the whole season, and those who show up for work sporadically and are hired on an *ad hoc* basis. Some of the latter attend school and pay for it by working in the mines during breaks or school holidays. Some of them never go back to school.

Child miners have a higher rate of illness, and pick up diseases common in quarries, such as malaria and trypanosomiasis, or sleeping sickness. Their resistance is not as high as that of adults, and for every ten cases of illness in the mines, seven strike child miners, regardless of gender. Girl miners in particular are faced with another common danger, that of sexual exploitation. Girls are sometimes abused, with the result that they are exposed to HIV/AIDS infection, which is frequent in such places.

Local critics and NGOs have demanded urgent remedial action: more rigorous application of existing child protection regulations by the Ministries of Labour and Education, and an interdepartmental commission to regulate working conditions in the mines. Customary and political-administrative authorities must have the power to prohibit the hiring of children, and sanctions should be imposed against violators. SAESSCAM should carry out increased on-site surveillance as part of its mandate to supervise artisanal miners. A special police force should be put in place to visit mines and quarries, to see whether children are being abused. Mining companies should be obliged to increase their contributions to the educational infrastructure in mining areas. Without much stronger and more forthright action, child abuse in the diamond mining industry will continue.

The Semi-industrial and Industrial Diamond Sector

Production in the industrial diamond sector reached nearly 7.9 million carats, valued at US$110.8 million in 2004, compared with nearly 8 million carats and $118.6 million in 2003. The sector experienced a downturn of one per cent by volume and seven per cent by value. The industrial mining sector comprises three companies, one of which, Sengamines, is in serious trouble. The mixed-economy company MIBA, which is 80% state-owned (the other 20% is owned by the Belgian company Sibeka), produces the largest volume of diamonds: MIBA was responsible for nearly 92% of industrial mining production in 2004. Its exports brought in revenue of $97.6 million. Sengamines produced 7.8% of the volume in the industrial sector, and a new company, KDC, produced less than one per cent of the diamonds in this sector.

The value of the diamonds produced by MIBA ranged between $13 and $14 per carat because most of their production was industrial quality. Sengamines exported diamonds valued at an average of $19 per carat, and the new company received an average of $114.30 per carat.

In 2004, MIBA's annual production increased by five per cent in volume compared with the previous year, while in 2003 its production increased 27%. Moreover, the value of its production in 2004 fell by almost five per cent. This downturn corresponds to a decline in the company's average diamond value, which decreased from $14.90 per carat in 2003 to $13.48 in 2004.

The company's production has always been lower than its break-even point, which MIBA President and CEO Gustave Luabeya pegs at between 7.5 million and 8 million carats. Some questioned whether the company had any future at all when it was stripped of a large share of its mining concession by the government, in favour of Sengamines. However, having obtained

Industrial Production in 2004, by Company and by Month

	MIBA		Sengamines		KDC	
	Carats	US$	Carats	US$	Carats	US$
January	634,077	8,523,339				
February	652,303	8,595,561	82,031	1,479,853		
March	634,288	8,324,086	42,620	975,308		
April	649,518	8,584,550	52,823	839,517	2,923	298,011
May	606,529	8,188,110	38,528	659,502		
June	624,825	8,501,672	57,201	1,128,540	1,534	81,580
July	581,394	7,992,031	65,130	1,389,674		
August	632,086	9,172,732	107,265	2,155,925	481	57,675
September	562,150	7,916,230			2,263	475,026
October	622,769	8,153,420			1,236	144,074
November	500,240	6,513,588	172,461	3,188,054	2,752	251,749
December	538,242	7,129,123			1,219	110,122
Total 2004	7,238,421	97,594,442	618,059	11,816,373	12,408	1,418,237
Total percentage of diamond exports	92%	88%	7.8%	11%	Less than 1%	1%
Average value (US$/carat)	13.48		19.12		114.30	

Source: Centre d'Évaluation, d'Expertise et de Certification du Congo

Sengamines: From Bad to Worse

In March 2005, Sengamines was forced to cease operations. The mining company's 1,200 employees were informed that there had been a disruption in fuel stocks and that the company was no longer economically viable. As of October 2005, Sengamines had not declared bankruptcy, but had been inactive and had not paid its staff in several months.

Yet as recently as May 2004, the future looked promising, when the principal shareholder in the company, Oryx Natural Resources (ONR), stated its intention to invest US$22 million in the company, and committed to boost production to 400,000 carats per month. The new financing resulted from a recapitalization of ONR. An Omani citizen, Issa al-Kawari – through his company, Africa Mining Management Company (AMMCO) – took over the running of ONR. The company had just completed the first phase of development and the second phase was to turn it into a leading diamond producer.

Sengamines was created in 2000, starting production in the middle of 2001. It was an open secret that the concession, snatched from MIBA's asset base, was compensation from Laurent Kabila's government to Zimbabwe, which had sent troops to the DRC to fight rebels supported by Rwanda and Uganda. Speculation as to the mining company's ownership structure was rampant in its early days. Suffice to say that Zimbabwe's strongmen, through Operation Sovereign Legitimacy (Osleg) and the Congolese state, were looking to partner with a mining operations expert, whom they found in the Omani investor al-Shanfari, ONR's mining expert and principal shareholder.

After a failed attempt by ONR in June 2000 to acquire Petra Diamonds, Sengamine's ownership structure was amended. The acquisition of Petra, listed on the London Stock Exchange, was derailed mostly due to ONR's controversial ties to the government of Zimbabwe, and allegations that the mining company had dealt in blood diamonds. The ensuing restructuring removed the Zimbabweans from Sengamines' ownership structure and redistributed the title in the following proportions: ONR (49%), Compagnie d'import/export (Comiex) owned by former president Laurent Kabila's regime (33.8%), MIBA (16%) and other investors (1.2%).

Three years later, a further restructuring established the ownership that is still in place today. Comiex was dissolved following calls from the World Bank to privatize; ONR holds an 80% share of Sengamines, and MIBA is left with the lion's share of the remainder.

Frequent shake-ups at Sengamines may be the main reason why the company's shareholders seem unable to convince any other mining companies to step up to the plate. Geoffrey White, Chief Executive Officer of AMMCO, told Zimbabwe's *Financial Gazette* in February 2005 that Oryx had never made payments to the Zimbabwean interests when they chose to bow out.

There has always been a problem of transparency in the company's statistics, and confusion surrounding its production has resulted in speculation as to how much it really exported. These suspicions turned out to be well founded when, in December 2004, reports of a seizure by the CEEC of a package containing 172 diamonds from a Sengamines mine was leaked to the press. The package's declared value of US$1.8 million was revalued by the CEEC at $3.2 million. Moreover, Sengamines attempted to sell the diamonds to a licensed *comptoir*, Stone, whereas the mining code obliged Sengamines to export the diamonds itself and to pay the treasury the higher industrial producer taxes.

The company, established by two presidents (Laurent Kabila of the DRC and Robert Mugabe of Zimbabwe), has always had management problems. Fuel supply and equipment problems, always blamed on poor rail transportation, were the official reason given for the company's failures, but these may have been an excuse. Rumours abound that it was al-Kawari, in his capacity as main supplier of fuel to Sengamines, who refused to deliver gas to his own company. One version alleges that having driven a wedge between himself and his partners, he then decided to sell off his stake in ONR, but had trouble finding anyone to buy his shares.

In March 2005, MIBA was asked to take over management of Sengamines, pay the staff back pay, and cover operating expenses for six months.

Sengamines Production

Year	Carats	Value in millions of US$
2001	161,515	2
2002	432,122	3.5
2003	1,094,487	16
2004	618,059	11.8

Source: Centre d'Évaluation, d'Expertise et de Certification du Congo

funding of $15 million in 2003 through a marketing agreement with Emaxon Finance International, the company invested in heavy equipment that should enable it to increase its diamond-processing capacity, and to uncover better quality diamonds in swamps. Although MIBA's improved performance is not sufficient to pull it out of the red, the new investments were expected to result in a better performance in 2005. The company employs 6,000 people who are depending on a turnaround.

At Sengamines, the future doesn't look hopeful. The growth predicted in 2003 for the following year did not occur. In 2004, the company's export volumes fell by half from the previous year. Moreover, CEEC statistics indicated flat production in January, September, October and December. These figures were harbingers of the problems that mushroomed in 2005 and that eventually forced the company to stop production. The difficulties resulted from management problems, tied in part to the obscure conditions under which the company was founded five years ago (see Sengamines box: *From Bad to Worse*).

In 2004, a new company called KDC showed up in the CEEC's annual report. KDC's activities commenced in April 2004, and the company produced 12,408 carats during the year, valued at $1.4 million. The average value is a respectable $114.30 dollars per carat. There is little information available on KDC. In the *Guide de l'investisseur du Ministère des mines et hydrocarbures*, published in June 2003, KDC is identified as a private company operating in Kasai Occidental, with a head office in Kinshasa/Gombe. Such is the dearth of information about this company that there is some doubt as to what its initials stand for. The *Guide de l'investisseur* identifies the company as the Kabongo Development Company; but elsewhere it is identified as the Kasai Diamond Company.

The number of semi-industrial companies is less than 20, according to government officials. These companies have large mechanized production capacities, including barges, dredges and excavating equipment. However, they sell their diamonds to *comptoirs*. Their exports, therefore, are combined with artisanal mining production sales.

Artisanal production

Three quarters of the DRC's official diamond exports in 2004, measured in carats, were produced by the artisanal sector, that is to say, by hundreds of thousands of miners or "*creusers*" who hand-dug the alluvial diamonds. Exports from this sector reached 22 million carats in 2004, and were valued at US$616 million, compared with 19 million carats in 2003, valued at $524 million. These figures represent an increase of 15% by volume and 18% by value, and underscore the vitality and importance of this sector.

Developments in 2004 shed light on this growth. The Kimberley Process Certification Scheme (KPCS) removed the Republic of Congo (Brazzaville) from the system that year. This country, which, for all intents and purposes, has no diamond production of its own, was exporting large quantities, probably smuggled from the DRC. The day after Brazzaville was removed from the KPCS in June 2004, the DRC exported a record number of diamonds. More than $72 million worth of diamonds was exported by *comptoirs* in the month of July 2004 alone. This upward trend held until December.

Moreover, there was a slight increase in the number of artisanal miners. SAESSCAM's 2004 annual report estimates that the 700,000 *creusers* in 2003 would have increased to 708,000 diggers. This growth occurred at the time Congolese artisanal miners were being expelled from Angola. Many of the expelled miners naturally turned to mining in the DRC, especially on the sites bordering the Angolan border, such Kahemba and Tembo.

It should be noted that actual production in the artisanal mining sector is unknown. Statistics are drawn from diamonds sold by licensed exporters – *comptoirs* – through official channels. Most of these diamonds come from *creusers* because the mining code obliges them to sell through *comptoirs*, either directly, or through middlemen (*négociants*). Industrial companies export their diamonds directly. It is understood, however, that the chaotic conditions under which production takes place leave the door wide open to all manner of illicit behaviour. Official statistics cannot keep track of Angolan diamonds smuggled into the country, for example, or of industrial production sold illegally to a *comptoir*.

No one doubts, however, the huge role artisanal production plays in generating foreign exchange and tax revenue. This sector plays a leading role in the state economy since the slump in MIBA production.

It is curious that this sector has been left to its own devices, given the huge investments that have been deployed in favour of MIBA and other Congolese companies. Artisanal mining had not benefited from any government investment or significant organizational assistance until 1999, and it was only in March 2003 that the public authority created SAESSCAM as an organizational framework to manage the resources generated by artisanal production (See box on SAESSCAM).

A diving team on the Tshikapa River

Annual Exports from Artisanal Production

	Carats	US$ value	US$/carat average value
2001	11,842,914	202,975,456	17.14
2002	16,174,451	320,730,411	19.83
2003	19,141,474	524,120,836	27.38
2004	22,119,173	616,657,355	27.88

Source: Centre d'Évaluation, d'Expertise et de Certification du Congo

Exports by *Comptoirs*, 2004

	Carats	US$ value	US$/carat average value
Abner Congo	226,978	7,433,462	32.75
Adex	533,735	20,764,633	38.90
Ashley	695,506	89,231,583	128.30
Fitos Congo	15,165	617,013	40.69
IDI Congo	2,658	833,345	313.56
Congo Diam	2,321,842	141,029,532	60.74
Kasai Wa Bal.	3,165,854	50,757,118	16.03
Margaux	1,517,466	67,939,970	44.77
Min-Trad	2,763	226,472	81.96
Millennium	6,790,666	107,794,385	15.87
Primogem	4,581,626	87,378,781	19.07
White Gem's	106,633	4,097,006	38.42
Socico	28,546	1,108,863	38.84
Tofen	265	82,242	310.05
Stone	2,129,470	37,362,950	17.55
Total	22,119,173	616,657,355	27.88

Source: Centre d'Évaluation, d'Expertise et de Certification du Congo

Exports by Hub, 2004

	Carats	US$ value
Kinshasa	6,416,725	345,910,202
Isiro	384	58,994
Kahemba	12,420	2,375,449
Mbuji-Mayi	14,364,126	166,701,616
Kisangani	102,974	8,899,554
Tshikapa	1,088,201	80,433,147
Tembo	134,343	12,278,394
Total	22,119,173	616,657,356

Source: Centre d'Évaluation, d'Expertise et de Certification du Congo

Diggers at an open-air pit, called a "4 x 4"

SAESSCAM (Service d'Assistance et d'Encadrement du Small Scale Mining): Organizing Artisanal Miners

If the bulk of the DRC's foreign exchange is generated through exports produced by artisanal miners, there should be evidence of socio-economic development in the areas where this mining takes place, particularly in the artisanal small-scale mining sectors. Unfortunately, in spite of the millions of dollars generated in these sectors, *creusers* work under appalling conditions and their communities do not benefit from their activity. The artisanal diamond production sector obviously needs an organization that can improve this situation. The main objective of SAESSCAM, founded in 2003, is to provide a technical and financial framework for small-scale mining operators, and to prevent mining fraud by channelling production into the official commercial markets.

The *creusers*, who number 708,000 according to SAESSCAM (some estimate there are up to a million) work in subhuman conditions, which can be summarized as follows:

- Lack of safety measures at mining sites (landslides and environmental problems);
- Low technology and use (sometimes excessive) of muscle power, which translates into poor yields;
- Total lack of technical and organizational framework among artisanal operators;
- Non-existent management.

These problems have led to an increase in tax evasion, under-valuation and smuggling in this sector, significantly reducing government revenue. Fraud is rampant at every level, from the lowly *creuser* and the CEEC, to licensed and unlicensed *comptoirs*. It is sometimes even encouraged by state employees to replenish state coffers. This lack of framework has led to a *laisser-faire* attitude at the mines, and has negatively impacted education, health, hygiene, the environment, family life, and the authority of customary chiefs, resulting in increased criminality.

SAESSCAM entered the fray at an opportune time, aiming to avert further deterioration in the sector. It developed two areas of focus: the promotion of integrated development, and the provision of technical coordination. Since its founding, SAESSCAM has provided a framework for operators, including:

- Organizing training sessions for miners on safety standards and procedures, provided free of charge on mining sites by SAESSCAM monitors;
- Providing small businesses with useful information on administrative facilities for expatriate staff;
- Providing new tools (motor pumps, picks, shovels, axes and boots) to miners so they can work more efficiently;
- Registering small-scale artisanal miners in pilot areas in *Tshikapa*, *Mbuji-Mayi* and *Lubumbashi* so that they can be issued licences.

Regarding investments in community infrastructure, SAESSCAM returned 20% of its tax and license revenue to local communities. Because the planned projects did not reflect the amounts allocated, SAESSCAM decided to manage the projects jointly with local communities. It is now reconstructing the administration building of the *Hôpital général de référence* in Tshikapa, which was burned down and abandoned 15 years ago. SAESSCAM also provided supplies to the Centre de Shamusanda, built with the 20% rebate, with beds, mattresses, microscopes and pharmaceutical products. It also covered the medical staff's salaries for one year.

Nevertheless, progress among artisanal miners and in their communities so far remains insignificant. People on the ground have not yet seen results from SAESSCAM, particularly in *Mbuji-Mayi*, where there is barely even a representative office. Strategies will be required that can progressively integrate small-scale mining operations into the formal sector. In order for this to happen, the artisanal mining sector must become a political priority. Government will have to encourage the creation of structured mining cooperatives, as well as complementary investments that can create other employment opportunities in the mining areas. SAESSCAM needs managerial training, and miners need technical assistance and training in every area, from mine management to health, safety and environmental protection.

These goals cannot be reached without willingness on the part of state authorities, and a much greater financial investment in SAESSCAM. Its current funding, based on a percentage of the fees paid for operating licences, is not sufficient. SAESSCAM represents considerable potential that also deserves the attention of donor agencies. With good management and adequate support, this organization could become a real means of economic change for creusers, making diamonds a vehicle for development in the DRC.

The Kimberley Process at work

Having taken part in the negotiations that resulted in the creation of the Kimberley Process Certification Scheme (KPCS), the DRC has been a member of the KPCS since the scheme came into effect.

Given the complexity of the DRC's diamond industry, the size of the country, and an alluvial production that extends across several provinces, the implementation of internal controls prescribed by the KPCS poses a considerable challenge for the DRC. Historically, the DRC has always had to deal with illicit diamond trafficking; in the more recent past, it has had to contend with conflict diamonds, and continues to be targeted by this threat.

According to expert estimates, the DRC has an annual rough diamond production of nearly $1 billion. In 2004, the official diamond export figure reached $727 million. The $300 million discrepancy between the estimate and the official figure raises questions. Lack of transparency in the fiscal system and weak monitoring make it difficult to track this significant drain on revenues, with smuggling and misappropriation appearing to be the main causes. Nevertheless, thanks to the Kimberley Process, the DRC has reported significant increases in the value of its exports over previous years. This upward trend gives hope to a country that has struggled for decades with theft, corruption, mismanagement and war.

The Republic of Congo (Brazzaville), hosted a Kimberley Process review in June 2004. Unable to justify the huge discrepancy between its annual production value, estimated at 50,000 carats, and its exports of 5.2 million carats in 2003, it was excluded from the Kimberley Process in July 2004. Following this, the DRC recorded an increase of 30% in official exports of rough diamonds in the same month.

A review was also conducted in the DRC, in October 2004. During this visit, a number of weaknesses were identified as to how the Kimberley Process is applied, and recommendations were made for improvement.

The implementation of the Kimberley Process in the DRC is monitored closely by civil society organizations. *Le Centre National d'Appui au Développement et à la Participation Populaire* (CENADEP) and its national network, *Réseau Ressources Naturelles*, work on the exploitation of natural resources and human security in the mining economy. Through its participation in KP plenary meetings, CENADEP has a good understanding of the KPCS. It plays a key role in the sharing of information with other Congolese organizations, and in policy dialogue with government on the exploitation of natural resources.

Sieving at Milombe, 25 kms from Tshikapa. More than 70% of those working are children between the ages of 10 and 16.

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Further information can be found at the following website:
Partnership Africa Canada
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