

# Conflict Diamonds

Louis Goreux  
March 2001



Public Disclosure Authorized

Public Disclosure Authorized

# Conflict Diamonds

March 2001

Africa Region Working Paper Series No. 13

## Abstract

Few natural resources have captured the attention of the international community as much as the conflict diamonds that have helped to sustain several African conflicts since the end of the Cold War. This paper aims to contribute to a better understanding of the role diamonds play in financing civil wars with a view to enhancing the ability of international organizations to help prevent future conflicts and to provide effective post-conflict assistance in conflict environments characterized by the presence of diamonds. The analysis draws largely on the experiences of Angola, Sierra Leone and the Democratic Republic of the Congo. According to the UN Security Council, it is from these three countries that, conflict diamonds originate.

## AUTHORS' AFFILIATION AND SPONSORSHIP

Louis Goreux

Consultant, Africa Region, The World Bank

Email: [Lgoreux@worldbank.org](mailto:Lgoreux@worldbank.org)

## THE WORKING PAPER SERIES

The Africa Region Working Paper Series expedites dissemination of applied research and policy studies with potential for improving economic performance and social conditions in Sub-Saharan Africa. The Series publishes papers at preliminary stages to stimulate timely discussion within the Region and among client countries, donors, and the policy research community. The editorial board for the Series consists of representatives from professional Families appointed by the Region's Sector Directors.

Editor in charge of the series: Antoine Waldburger, AFTM3, Email: [awaldburger@worldbank.org](mailto:awaldburger@worldbank.org), who may be contacted for hard copies.

For additional information visit the Web site <http://www.worldbank.org/afr/wps/index.htm>, where copies are available in pdf format.

**The findings, interpretations, and conclusions expressed in this paper are entirely those of the author(s). They do not necessarily represent the views of the World Bank Group, its Executive Directors, or the countries that they represent and should not be attributed to them.**

# **Conflict Diamonds**

**Louis Goreux**

Consultant, Africa Region, The World Bank

Email: [Lgoreux@worldbank.org](mailto:Lgoreux@worldbank.org)

**March 2001**

**The findings, interpretations, and conclusions expressed in this paper are entirely those of the author(s). They do not necessarily represent the views of the World Bank Group, its Executive Directors, or the countries that they represent and should not be attributed to them.**



## Contents

<b>1. INTRODUCTION.....</b>	<b>1</b>
<b>2. THE STRUCTURE OF THE WORLD DIAMOND MARKET .....</b>	<b>2</b>
2.1 FROM MINE TO MARKET .....	2
2.2 PRODUCTION .....	2
2.3 THE DIAMOND CARTEL .....	4
2.4 ARTISAN MINING .....	4
<b>3. THE PROBLEM OF CONFLICT DIAMONDS .....</b>	<b>5</b>
3.1 ANGOLA .....	6
3.2 SIERRA LEONE.....	7
<b>4. WHAT CAN BE DONE?.....</b>	<b>8</b>
4.1 THE DIAMOND INDUSTRY.....	9
4.2 GOVERNANCE IN EXPORTING COUNTRIES .....	11
4.3 SOCIAL AND ECONOMIC SUPPORT FOR ARTISAN MINING COMMUNITIES.....	13
4.4 RELATED CONFLICT PREVENTION AND POST-CONFLICT RECONSTRUCTION ACTIVITIES .....	14
<b>5. CONCLUSION.....</b>	<b>15</b>
<b>ANNEX 1: ANGOLA.....</b>	<b>17</b>
<b>ANNEX 2: SIERRA LEONE .....</b>	<b>21</b>
<b>ANNEX 3: DEMOCRATIC REPUBLIC OF THE CONGO .....</b>	<b>25</b>
<b>SELECTED BIBLIOGRAPHY .....</b>	<b>27</b>



## 1. Introduction

1. Few natural resources have captured the attention of the international community as much as the *conflict diamonds* that have helped to sustain several African conflicts since the end of the Cold War. This paper aims to contribute to a better understanding of the role diamonds play in financing civil wars with a view to enhancing the ability of organizations such as the World Bank to prevent future conflicts and to provide effective post-conflict assistance in conflict environments characterized by the presence of diamonds. The study will utilize the United Nations' definition of conflict diamonds as stones that are mined in territories controlled by rebels and used to finance conflict.

2. The analysis in this paper draws largely on the experiences of Angola, Sierra Leone and the Democratic Republic of the Congo (DRC). According to the UN Security Council, it is from these three countries that, conflict diamonds originate. All three countries are well endowed with natural resources yet remain among the poorest in the world. Of the 206 countries for which per capita GNP data are provided in the World Development Report 2000/01 (WDR), Angola ranks 194<sup>th</sup>, Sierra Leone ranks 203<sup>rd</sup>, and the DRC ranks 205<sup>th</sup>. Evidently, these countries have not been able to draw on their wealth in natural resources to reduce poverty and to pursue a sustainable development path.

3. Yet diamonds can be a powerful source of growth and poverty reduction. The outstanding example of a maximization of diamond resources is Botswana, which over the last 25 years, recorded a growth rate comparable to the rates achieved by the most successful East Asian countries. While Botswana's diamonds originate from kimberlite pipes, alluvial diamonds too could become a source of growth rather than conflicts. The study will identify possible measures to improve the potential for alluvial diamonds to become a resource for broad-based and sustainable economic growth.

4. The study is organized in three parts. The first briefly reviews the structure of the world diamond market and reviews some broad features of artisan mining. The second deals with the challenges posed by conflict diamonds. The third identifies contributions the World Bank could make to resolving some of the challenges through a close partnership with other members of the international community. A more detailed analysis of conflict diamonds in Angola, Sierra Leone and the Democratic Republic of Congo is provided in three annexes.

## 2. The Structure of the World Diamond Market

### 2.1 From Mine to Market

5. Before a diamond leaves the jewelry shop, the stone typically goes through five stages of processing. At the *first* stage, that of mining and purchasing rough gem stones, De Beers plays a dominant role. It owns some 40 percent of diamond mines and regulates world prices with a large buffer-stock of unpolished diamonds. This buffer-stock is managed by the Central Selling Organization (CSO), which purchases approximately 70 percent of the world gem mining output. At the *second* stage, stones are sorted by size and quality in several diamond centers before being sold to manufacturers. Some 80 percent of rough diamonds and over 50 percent of polished stones pass through Antwerp. The other main diamond centers are located in London, Lucerne, New York, Tel Aviv, Johannesburg, Bombay and Dubai.<sup>1</sup> At the *third* stage, stones are cut and polished. The location of this activity has evolved over time to reflect changes in relative labor costs and business friendly environments. Only highly-valued stones are now polished in New York<sup>2</sup>, while most small-sized low-valued stones are polished in Bombay and vicinity. Manufacturing the jewelry is the *fourth* stage and marketing it is the *fifth*. This paper will focus on the first three stages of this process.

6. The diamond industry provides significant revenues for market participants. In 1999, rough gem diamonds purchased at mine gate were valued by the Mining Journal at \$7.3 billion. Diamonds sorted and polished were sold to jewelers for \$14 billion. The value added by jewelers in the form of labor, gold, platinum and stones other than diamonds was estimated at \$14 billion, bringing total production costs to some \$28 billion. With a 100 percent retail margin, the value paid by consumers for diamond jewelry was estimated at \$56 billion, of which almost half was sold in the United States.<sup>3</sup> Most of the profit was made at the final stage in marketing the jewelry.

### 2.2 Production

7. An estimated 41 percent of world diamond production valued at mine gate originates from Botswana, South Africa and Namibia (table 1), where De Beers, the dominant force on the diamond market for decades, has major interests. A further 33% comes from Russia, Australia and Canada. In these six countries— which constitute 74 percent of world production – diamonds are mainly extracted from kimberlite formations. Mining technology is highly mechanized, sites are well fenced, and security is very tight. De Beers owns a substantial share of these kimberlite mines, and a predominant share of

---

<sup>1</sup> The same stone often moves several times from one center to another before being sold to a manufacturer. As a result, the amount of carats recorded in a year as imports into Belgium is twice the amount of world production. Because Belgium is the only country issuing data on diamond trade, it is very difficult to assess the world diamond trade pattern by balancing imports and exports.

<sup>2</sup> In terms of average value per stone processed, New York is followed by Antwerp, Tel Aviv and Johannesburg.

<sup>3</sup> The year of 1999 was good for diamonds and the first half of 2000 was even better.



the production is commercialized through the Central Selling Organization (CSO), which is part of the De Beers group.

**Table 1: Diamond Producing Countries 1999**  
(Volume and Value of Raw Diamonds in 1999)

Countries	Population (million)	GNP per capita in 1999 \$	Carats (millions)	\$ per carat	Production (millions of \$)	Percent of World Export Value
Botswana	1.6	3,240	21	76	1,613	22
Russia	147	2,270	16	94	1,523	21
South Africa	42	3,160	10	101	985	14
DR Congo	50	110	22	33	725	10
Angola	12.4	220	3.6	150	544	8
Australia	19.0	20,050	30	15	437	6
Canada	3.1	19,320	2.5	168	422	6
Namibia	1.7	1,890	1.6	257	414	6
Sierra Leone	4.9	130	0.6	230	138	2
Guinea	7.2	510	0.55	218	120	1.7
CAR	3.5	290	0.45	205	92	1.3
Venezuela	24	3,670	0.45	130	59	0.8
Brazil	168	4,420	0.9	45	41	0.6
Tanzania	33	240	0.2	160	37	0.5
Liberia			0.2	160	32	0.4
Côte d'Ivoire	14.7	710	0.17	145	24	0.3
Ghana	18.9	390	0.5	38	19	0.3
China	1,250	780	0.15	103	15	0.2
Lesotho	2.1	550	0.04	345	15	0.2
<b>World</b>			<b>111</b>	<b>65</b>	<b>7,253</b>	<b>100.0</b>
<b>o/w conflict diamonds</b>	<b>67</b>	<b>125</b>			<b>255</b>	<b>3.6</b>
Angola	12.4	220			150	2.1
Sierra Leone	4.9	130			70	1.0
DR Congo	50	110			35	0.5

NB. The part of mined diamonds used for industrial purposes is sizable in terms of weight but small in terms of value. The study focuses on gem stones which are those involved in financing conflicts. In terms of GNP per capita, Angola ranks 194, Sierra Leone 203 and DRC 205 out of the 206 countries covered in World Development Report 2000/01 (WDR).

Source: Population and GNP per capita taken from WDR 2000/2001. Per capita GNP for the DRC is for 1998. Diamond production data are derived from the Mining Journal, London, June 16, 2000, p.466. Values of conflict diamonds are taken from Andrew Coxon, CSO, Kimberley 5/11/00. According to the report of Monitoring Mechanism on Angola Sanctions issued 12/21/00, conflict diamonds in Angola exceeded \$150 million in 1999, notably due to diamonds smuggled directly to manufacturers without passing through diamond centers.

8. Approximately 25% of world production comes from ten countries of western and central Africa and the remaining 1.6 percent from Latin America and Asia. In these countries diamonds are mainly found along river beds. These so-called alluvial diamonds are collected over extended areas by a multitude of independent small enterprises and artisans (diggers) using rudimentary technologies. These mining sites cannot be fenced;

controls are loose and are frequently ineffective. This is where the problem of conflict diamonds arises.

### **2.3 The Diamond Cartel**

9. The De Beers diamond cartel has endured for almost 70 years. For producers, the resulting price stability has reduced the risk of investment and has promoted exploration. As a result, Australia became a major diamond producer in the 1990s and Canada is becoming an even larger one. For consumers, the cartel has been able to control pricing at rates favorable to the cartel due to its control over supply. However, prices expressed in current dollar terms have remained stable from 1990 to 1998.

10. By late 1998, De Beers had accumulated a stock of diamonds almost equivalent to a full year of world production. Holding a large buffer stock and promoting final demand by advertising "A Diamond Is Forever" was effective but costly for De Beers, as it also benefited free riders who became competitors.<sup>4</sup> De Beers thus recently changed its business strategy from horizontal integration (aimed at controlling world production and marketing of unpolished diamonds) to vertical integration (from the kimberlite mine to the jewelry sold under the "De Beers" brand name).<sup>5</sup> Consequently, De Beers has released its control over world prices of unpolished diamonds. The buffer stock was reduced from \$5 billion in 1998 to \$4 billion in 1999 and to less than \$3 billion by June 2000, which is close to the \$2 billion needed as working stock. With this new strategy, De Beers has to project a different image and the cartel manager is now called "the Supplier of choice".

### **2.4 Artisan Mining**

11. Alluvial diamond mining is typically artisan in nature. Artisan or small-scale mining is often a poverty driven activity, typically practiced in poor and remote rural areas of a country by a largely itinerant and poorly educated population with few other employment alternatives. More often than not, in the absence of functioning state regulatory frameworks and enforcement capabilities, it is conducted illegally. Today, an estimated 13 million people in about 30 countries across the world are small-scale/artisan miners, with about 80 million to 100 million people depending on mining of gold and precious stones for their livelihood.

12. Miners and their families expose themselves to harsh working conditions for minimal income in a high risk context. Production, processing and marketing techniques are extremely rudimentary. Work is generally dangerous, unhealthy, precarious and

---

<sup>4</sup> The advertising campaigns launched by N. W. Ayer in the United States in 1939 and by J. W. Thompson in Japan in 1967 were very effective. In Japan, the percentage of women receiving a diamond engagement ring reportedly rose from 5 percent in 1967 to 60 percent in 1981. See "Have you ever tried to sell a diamond?" by E. J. Epstein, *Atlantic Monthly*, February 1982.

<sup>5</sup> The new strategy was outlined by De Beers, first, to his sight-holders and, one week later, to the World Diamond Congress on July 19, 2000. According to a report of the *Financial Times* dated 01/16/01, "De Beers is finalising details of a joint venture with France's LVMH luxury goods group to open shops around the world selling De Beers-branded diamond jewelry."

poorly paid. Living conditions and community hygiene standards are very low. Seasonal small scale mining is a regular, often life-long, source of income. During off-seasons, agricultural labor moves to mining areas, generally in search of relatively high value minerals, notably gold and precious stones.

13. Gold rush mining leads to a high concentration of artisan miners which does not last; the population living in the area is augmented by the arrival of people who have temporarily left their regions and traditional occupations (farming/petty entrepreneurial activities). Since these people live and work within a short-term horizon, the mining methods employed often cause grievous environmental damage.

14. Much of the actual economic potential is lost due to the absence of a legal or fiscal framework. Among others, a regulatory framework is commonly missing, including licensing, taxation, and internal trade. Labor laws, if they exist, are not enforced, including the use of child labor. Because of low pay, civil servants, if present, are often prone to corruption. Finally, "law" enforcement in conflict diamond zones is the hands of rebel forces.

15. Artisan mining also has important public health implications. A sizable part of the population undertaking artisan mining consists of young male workers with no culture of savings. Living in an insecure environment where illicit drugs and sex-workers are available, they are severely exposed to the risk of sexually transmitted diseases and other illnesses. While the correlation between small-scale mining and HIV/AIDS incidence has not been established statistically, anecdotal information and common sense suggest that artisan miners are in the high risk category of HIV/AIDS.

### **3. The Problem of Conflict Diamonds**

16. The diamond was long marketed as a symbol of purity. However, this image was tarnished by the revelation that diamonds were being used to finance and perpetuate conflicts in Angola and Sierra Leone. The UN Security Council first became involved in conflict diamonds in the context of the Angolan peace process, following the failure of the 1992 peace accords. In 1993, it imposed embargoes on arms imports and diamonds exports and established a sanction committee. In 1999, a panel of experts was convened to support the sanction committee.<sup>6</sup> In Sierra Leone, the 1997 military coup and the collapse of the 1999 Lomé peace agreement in May 2000 led to similar developments. The embargo on imports of weapons in 1998 was followed in July 2000 by an embargo

---

<sup>6</sup> Resolutions 863 and 864 in 1993 established the embargoes and the sanction committee. Resolutions 1127 and 1173 in 1997 and 1998 required certificates of origin for diamond exports from Angola. Resolution 1237 in 1999 established a panel of experts which issued its report on 3/15/00. Resolution 1295 of 4/18/00 established the monitoring mechanism on the basis of the recommendations presented by a panel of experts.

on diamond exports from Sierra Leone and the establishment of a sanction committee.<sup>7</sup> Diamonds have not been subject to UN Security Council sanctions in the DRC conflict.<sup>8</sup>

17. The characteristics of diamonds make them particularly desirable for rebel forces. They are often mined with rudimentary equipment from alluvial deposits which are difficult to control because they cover widespread areas in remote parts of affected countries. Due to their small size and high value, diamonds are also easy and attractive to smuggle. Finally, diamonds are extremely difficult to source, thus complicating efforts to police the origins of a given diamond.

18. Diamond diggers, who may account for some 10 percent of the national labor force, are attracted to diamond sites by the hope of finding the big diamond which will transform their life. Those who do not find it – and they are many – remain in the sites for lack of better employment opportunities. Many diamond diggers thus end up in poverty and constitute an attractive and easy recruitment pool for rebel groups, either to join their fighting ranks or to search for diamonds on their behalf to finance their war.

19. Improving employment opportunities for rural labor and youth may be the long-term solution in conflict-affected countries with alluvial diamond resources. However, the prerequisite for development is to break the vicious circle within which these conflict countries are engaged. For Angola, Sierra Leone and the DRC, the immediate challenge is to end civil war and establish sustainable peace. However, restoration of state control over diamond sites will not be sufficient in itself. The ultimate utilization of diamond resources for development ends will require the elaboration of effective and transparent governance systems to regulate their exploitation, protect the labor rights of diggers, encourage investment, limit damage to the environment and facilitate appropriate taxation.

### **3.1 Angola**

20. Conflict diamonds have played an important part in the Angolan civil war since the 1980s. Following UNITA's rejection of the election outcome in March 1992, the rebel organization resumed military activities. It is believed that UNITA's subsequent military campaign was financed with diamonds, while the Government financed its military expenditures with oil revenues.

21. The UN sanctions imposed on UNITA had limited effects, as stressed by Ambassador Fowler from Canada: "In January 1999, it was all too clear to us that the diamond embargo was not working. Other elements of the sanctions regime against

---

<sup>7</sup> Resolution 1305 of 07/05/00 required certificates of origin for diamonds exports from Sierra Leone. The sanction committee held public hearings on 07/31/00 and 08/01/00, and the recommendations of a panel of experts were circulated by the President of the Security Council on December 21, 2000.

<sup>8</sup> Diamonds mined in the eastern part of the DRC, which is under rebel control, account for only some five percent of all diamonds mined in the DRC. Diamonds represent only a minor part of the resources available to rebel groups (gold, timber, tantalite) and they do not play an important role in the conflict. The UN Security Council has not enforced an embargo on diamond exports from the DRC. Instead, in June 2000, the Security Council established a panel of experts to assess "the illegal exploitation of natural resources and other forms of wealth in the DRC".

UNITA – on arms, military assistance, representation and travel abroad, petroleum products, and funding – were also having little impact, and successive and very expensive UN peacekeeping and observer missions were not succeeding in achieving a lasting peace.”<sup>9</sup> It was reported at the time that a certificate of origin could be bought for five dollars and that UNITA soldiers routinely traded stones with government soldiers. A parcel purchased from the Ministry of Mines could, therefore, be contaminated with conflict diamonds. In addition to this informal trading, UNITA had established a highly centralized network which succeeded in building up a large war chest in the form of both diamonds and currency deposits abroad. Whenever needed, UNITA diamonds were sold abroad. After being mixed with diamonds of different origins, they could not longer be identified as conflict diamonds.

22. After controls were tightened in February 2000 and certificates of origin were printed on security paper, it was reported that UNITA had to sell its diamonds at a discount, which is what could have been reasonably expected from the sanctions. It is true that diamond sales by UNITA declined in late 1999 and 2000, but sales declined essentially because UNITA lost control of most of its mining sites.<sup>10</sup> According to a preliminary report on UN sanctions submitted to the Security Council on October 24, 2000, no progress has been achieved since the completion of the Fowler report in March 2000. It was noted that: “UNITA is still trading in illicit diamonds, has access to funds abroad, and its officials are traveling freely in several countries outside Angola.”<sup>11</sup>

### **3.2 Sierra Leone**

23. Diamonds were an important source of foreign exchange and tax revenue for Sierra Leone in the 1970s, but the management of the National Diamond Mining Corporation (NDMC) deteriorated afterward. Only a tiny share of diamond production was exported through official channels by the end of the 1980s. The corrupt management of diamond resources became a source of considerable grievance for local populations even before the rebellion started in 1991. During the last ten years, the Revolutionary United Front (RUF) has financed its rebellion largely with smuggled diamonds. In July 2000, the UN Security Council issued an embargo on the import of diamonds from Sierra Leone that do not have certificates of origin delivered by the government.

24. The experience gained in Angola was used to design a new regulatory mechanism in Sierra Leone. Since October 2000, Sierra Leonean certificates of origin have been printed on security paper. Under the new scheme traders who were exporting non-RUF diamonds to Antwerp without paying any export tax will no longer be able to do so. Instead, they will have to go through the Ministry of Mining to obtain a certificate of

---

<sup>9</sup> Statement pursuant to Security Council Resolution 863/1993 delivered by Ambassador Fowler (Chairman of the Sanction Committee established pursuant to resolution 863 concerning the situation in Angola) to the World Diamond Congress (07/18/00).

<sup>10</sup> The Mining Journal estimated the 1999 output of the Catoca and Luzamba mines at \$144 million and that of artisan mining at \$400 million. From 1998 to 2000, UNITA lost control of most of the territories where artisan mining is conducted. In 1999 the value of diamonds captured by UNITA was estimated at \$150 million.

<sup>11</sup> IRIN, Focus on interim sanction report, 10/31/00.

origin and pay an export tax based on the true price because, on arrival in Antwerp, the stones will be valued by technicians who have no interest in undervaluing imports. Since the value of the stones will be transmitted electronically to the authorities in Freetown, export tax proceeds are expected to increase.<sup>12</sup> This system is expected to have a negative impact on the RUF who will have to accept lower prices when using their unofficial channels.

25. The scheme may work effectively provided several conditions are met. First, diamonds mined by rebels must be prevented from entering official channels. This would require greater transparency in trading practices within the country. Second, since a number of government agents would lose the opportunity of receiving additional payments on the side, their official remuneration should be raised to motivate them.<sup>13</sup> Third, exporters should not have the option of sending their stones to a diamond center where controls are loose or virtually nonexistent. Fourth, a few reputable foreign buyers should be attracted to come to Freetown. This would require greater transparency and simplicity in the conduct of financial transactions and in the attribution of licenses to exporters and dealers.

#### **4. What Can Be Done?**

26. With the renewal of the Sierra Leone conflict in May 2000, conflict diamonds have become an issue widely debated by the media, with the active participation of NGOs and the United Nations. Conflict diamonds pose many and complex challenges to local populations in alluvial diamond mining areas, to governments seeking to establish control over these diamond resources, to actors in the international community engaged in conflict resolution and peace-building initiatives, and not least to companies and individuals engaged in the mining, processing and marketing of diamonds. Security considerations implicit in the re-establishment of government control over conflict diamond mining areas in Angola and Sierra Leone are beyond the scope of this paper.

27. With widespread poverty and an abundance of weapons, alluvial diamond mining sites will probably be areas difficult to govern even after a government restores control. There is no silver bullet for transforming alluvial diamonds from a source of conflict into a source of growth. However, the paper will identify several actions that the World Bank and IMF could support to strengthen the governance of alluvial diamond mining and improve the labor and living conditions of alluvial diamond mining communities. Similar measures could also help to reduce the potential for diamonds to become a source of conflict in violence-prone areas in the first instance.

---

<sup>12</sup> Under the old system, stones have been considerably undervalued to reduce tax payments and savings have been shared between the exporter and underpaid government evaluators.

<sup>13</sup> At \$60 a month, the yearly cost of the six local evaluators remains below \$5,000, which amounts to a minute fraction of the yearly cost of an expatriate evaluator and of the expected gain in tax revenues.

#### 4.1 The Diamond Industry

28. Galvanized by the threat of an anti-diamond campaign similar to the campaigns previously launched against fur and ivory, the diamond industry addressed the issue at the biennial World Diamonds Congress held in Antwerp July 17-19, 2000. The industry responded to public criticisms with two arguments. First, it stressed that conflict diamonds accounted for less than four percent of the world production of gem diamonds and that a general diamond boycott would hurt low-income countries; not only in Sub-Saharan Africa, but also in those Asian countries which polish the stones. Second, it presented a series of proposals and focussed discussions on the feasibility of certificates of origin and the enforcement of tighter professional codes of ethics.

29. It should be noted that conflict diamonds raise problems for the entire industry but that they do not affect all producers in the same way. De Beers mines in Botswana, South Africa and Namibia employ sophisticated technology and are tightly controlled. Parcels shipped from these mines to De Beers in London can be certified as not containing conflict diamonds. The same applies to diamonds purchased under contract from Canada, Russia and Australia. The problem arises with alluvial diamonds which cannot be tightly controlled. A general embargo on alluvial diamonds is not appealing, as it would penalize many countries which mine alluvial diamonds in western and central Africa. Furthermore, removing alluvial diamonds from the market would also raise prices of non-alluvial diamonds.

30. Gemologists are generally able to identify the origin of diamonds if they receive several parcels of gems coming from the same area. However, they have great difficulties in identifying origin once stones from different areas have been mixed, and they are completely unable to identify the origins of a polished stone. It is also recognized that it would not be feasible to issue certificates of origin for each of the 800 million gem stones entering the world market every year, but that certificates could be inserted in sealed diamond parcels before shipment to diamond centers.

31. To become effective, credible certificates of origin should be required from all diamond exporting countries and credible import certificates from all diamond importing countries.<sup>14</sup> Otherwise, stones shipped from a country with strict controls could be mixed with stones from a country with loose controls somewhere in the pipeline. Contamination with conflict diamonds could be prevented only if all those with access to the pipeline respect a strict code of ethics and this would have to apply all the way through the jewelry shop.<sup>15</sup> De Beers claims that it can and will take all necessary measures to prevent its pipeline from being contaminated. In this connection, it announced that its sight-holders will have to sign a contract prohibiting them from purchasing conflict diamonds. No doubt, rebels will continue to search for a way to sell their stones. However, if a system

---

<sup>14</sup> On November 29, 2000 South Africa announced that it would introduce to the UN General Assembly a resolution requesting certificates of origin for all diamond exporters. Following a resolution of this assembly in December 2000, an international conference was held in Namibia on February 13-16, 2001 to consider the possibilities of establishing a global certification scheme.

<sup>15</sup> A trader could be blacklisted more easily than a diamond center. For example, if controls were tight in Tel Aviv but not in Dubai, could Dubai be blacklisted?

of certificates of origin works effectively, they would have access only to shady pipelines where stones would be bought at a discount.<sup>16</sup>

32. If diamond trade channels were public worldwide, exports and imports of diamonds could be perfectly matched for each transaction and rebels (like the RUF) could not reach the uncontaminated pipeline unnoticed because they would have to take the place of a legitimate exporter.<sup>17</sup> Trade statistics remain very far from this ideal state but even with weak data, major discrepancies have been detected. In his statement to the sanction committee, US Ambassador Holbrooke noted that diamond exports from Liberia were worth thirty times what the country was able to produce. The huge discrepancy can be explained in three ways. First, some exports from Russia are said to be recorded as originating from Liberia<sup>18</sup> and others African countries to avoid the 0.3 percent import tax on Russian diamonds when entering Belgium.<sup>19</sup> Second, as a center of money laundering, Liberia needed a lot of diamonds to launder dollar bills and the demand for diamonds was such that diamond prices were reported to be higher in Monrovia than in Antwerp. Third, it is believed that Liberia has been functioning as the main outlet for diamonds from RUF-controlled areas<sup>20</sup>.

33. A major impediment to the implementation of the scheme advocated at the World Diamond Congress is that diamond centers know which country shipped a given batch of stones, but often do not know their country of origin. To fulfill its pledge, the industry should be able to identify the complete trade channel from the country of origin to the diamond center. But this is not an easy thing to do. The IMF has been doing such analysis for trade statistics at the macro-level for years with its Direction of Trade Statistics (DTS); but the DTS is not without shortcomings and it deals only with aggregates; it does not go down to the level of diamonds. The diamond industry could nevertheless probably benefit from the experience gained by the IMF in working out its DTS. Furthermore, if the value of diamond imports by diamond centers was emailed simultaneously to the authorities and to the IMF, it would help in improving transparency of financial transactions. This may require the introduction of new and harmonized legislation in all major diamond importing countries.

34. The campaign against money laundering recently initiated by several institutions (notably, OECD, EU, US Treasury and Interpol) provides another avenue of promising cooperation. On the one hand, these institutions could make use of additional

---

<sup>16</sup> The discount at which rebels sell their stones is not well known because the discount occurs before the stone reaches the manufacturer. The jeweler does not sell conflict diamonds at a discount because he does not know the origin of the stone. The situation would, however, change if a clean diamond pipeline could be differentiated from one which is not clean and if consumers were ready to pay more for clean diamonds.

<sup>17</sup> This is the objective of a resolution adopted at the World Diamond Congress on July 18, 2000.

<sup>18</sup> Witness statements at US Congress Hearing on "Conflict Diamonds" in May 2000, and witness statement by the Diamond High Council (HDR) at the UN on July 31, 2000, page 4, paragraph 4. In the import statistics issued by HDR, Russia is not reported as having exported any diamond to Antwerp in 1999, while diamond exports from Liberia were reported at \$299 millions and \$59 million from the Gambia, which does not produce any diamonds.

<sup>19</sup> Countries associated with the EU under the Lomé Convention (that is, most African countries) are exempted from the tax. Since the proceeds of the 0.3 percent tax are under one million dollars, Belgium would probably be better off by eliminating the tax.

<sup>20</sup> Statement by Mr. Pattison at the UN on August 1, 2000, last point before the conclusion.



information on illicit diamond exports, since diamonds provide an excellent medium for money laundering. On the other hand, the measures taken by these institutions to fight money laundering would help the legitimate diamond industry by creating additional problems for smugglers and, therefore, raising the cost of smuggling diamonds.

#### **4.2 Governance in Exporting Countries**

35. Defeating smuggling and money laundering will not be easy, since a diamond is by far the item with the highest value per unit of weight. Thus, in 1999, one kilogram of rough diamonds from Sierra Leone sold on average for \$1.15 million, which was the market price for 135 kilograms of gold and represented the earnings of two thousand Sierra Leonean civil servants in a full year. Given these magnitudes, corruption cannot be eliminated and embargoes on neighboring countries may not prevent smuggling, since rebels can modify their routing of smuggled diamonds. It may be more effective to reduce smuggling incentives by applying simple but uniform regulations in diamond exporting countries, wherever possible. If the cost of smuggling were close to that of trading through official channels, smuggling would be reduced. The Bank and the Fund can provide assistance to Governments seeking to improve their national governance of the diamond industry. At the policy level, they can engage Governments in a dialogue about regulatory reform with a view to reducing incentives and scope for smuggling by introducing transparent and fair licensing, pricing and diamond certification regulations and policies. They can also provide technical and financial assistance to support the enforcement of new policies and regulations.

##### **4.2.1 Taxation and Export Regulations**

36. Export taxes have to be low, because diamonds are easy to smuggle.<sup>21</sup> But export taxes are not the only costs incurred by the exporter using official channels, the cost of financial intermediation is also a problem. After certificates of origin became available in Sierra Leone, exporters came out with sizable supplies; but they had to wait for weeks before shipping their stones waiting for an agreement with the central bank to be worked out<sup>22</sup>.

37. With the proposed scheme of certificates of origin – conceived as a partnership between governments of exporting countries and diamond centers – a parcel of gems

---

<sup>21</sup> The logic for collecting taxes is as strong for diamonds as for tropical hard woods, but the most efficient way of doing it differs because diamonds are much easier to smuggle than logs. Export taxes on diamonds range from 2.5 percent to 3.5 percent in most diamond producing countries. The proceeds lost by lowering export taxes could be offset by raising license fees, but the trade-off between the two would depend on local conditions.

<sup>22</sup> Diamond exports from Sierra Leone through official channels amounted to only \$1.2 million in 1999, that is less than one percent of the estimated production. The amount doubled in the two-week period preceding the July 5 resolution enforcing an embargo on diamond exports. After certificates became available and the embargo was lifted, exporters came up with diamonds worth \$4.7 million on October 24, but the stones could be sold only after a direct intervention of the President. A further \$8 million sale was halted over a dispute over payment methods until a compromise was reached on November 29. The procedure was clarified by guidelines issued by the Central Bank on 01/08/01, but problems remain. Since October 2000 (when the first certificates of origin were issued) through June 2001, official exports amounted to only \$15 million, which hardly exceeds 10% of Sierra Leone's annual estimated output. Moreover, little of it, if any, was used to import goods through the official banking system.

would need a genuine certificate from the local authorities to gain access to a diamond center where the stones would be valued on receipt and their value would be transmitted electronically back to the local authorities. For this purpose an email system was installed between Freetown and Antwerp on October 19, 2000. Timely communication of market information will be essential, but the main challenge will be to check that no stone mined in RUF controlled areas is included in any of the parcels containing a certificate of origin. The Fund, the Bank and the HDR could assist Sierra Leone in finding efficient ways to conduct financial transactions with full transparency and to explore strategies to verify the accuracy of certificates issued by the government.

#### **4.2.2 Pricing Transparency**

38. Prices at which diamonds are sold to the importing country should be publicized without delay in the importing country; auctions with reputable buyers should be conducted periodically; accounts of the exporting agency should be audited regularly and cross-checked with those of the treasury and the central bank. The Fund and the Bank can provide help in this task and, in the case of Angola, they are committed to assist the government in conducting a study of the flows of funds in the diamond sector.<sup>23</sup> Moreover, in response to proposals made by diamond centers, workshops on valuation should be conducted in mining areas to provide artisan miners with a better knowledge of the true value of the stones and to strengthen their bargaining power, which is currently very weak.<sup>24</sup>

#### **4.2.3 Allocation and Enforcement of Mining Rights**

39. A distinction must be made between the mining of kimberlite pipes and alluvial diamonds, both of which occur in Angola and Sierra Leone. For kimberlite formations, which can only be exploited efficiently with mechanized technologies, foreign investors have to be attracted by offering predictable, transparent and attractive investment conditions. This may require a revision of mining legislation in conflict countries. However, external investors are unlikely to invest before being convinced that security has improved substantially and that the improvement will last. With respect to the mining of alluvial diamonds, which is the immediate concern, transparent, market-based allocation and enforcement of mineral rights would contribute to increasing production and reducing smuggling. This practice was successfully implemented in Peru at large alluvial gold fields exploited by artisan miners. The starting point was a computerized site register which facilitated a precise mapping of mining sites, granted concessions and work areas. The allocation of mineral rights was supported by efficient legal procedures for settling disputes. The Bank could finance efforts to establish the similar GPS positioning of concessions and working areas in artisan diamond mining centers.

---

<sup>23</sup> See annex 1, paragraph 54.

<sup>24</sup> Technical assistance was offered for this purpose by HDR, which is the Dutch acronym for "Hoge Raad voor Diamant" known as the Diamond High Council ("Strategic Plan for Transparency in African Diamond Trade" HDR, section 5.1, July 12, 2000).

40. For countries currently trapped in conflict, the Bank could help governments to prepare contingency plans to be implemented as soon as peace is restored. Mining of alluvial diamonds has not been interrupted by conflicts and it will continue when the conflict is over. With the shortage of other employment opportunities and the abundance of weapons, diamond sites will remain potential trouble areas. Unless appropriate measures are implemented promptly, the rebel groups may simply be replaced by other gangs, and the legal authorities may not be able to regain true control of the areas. Such measures cannot be improvised at the last minute; they have to be prepared in advance by taking into account technical and social factors.

### **4.3 Social and Economic Support for Artisan Mining Communities**

41. Although the number of those working in mining sites is not well known, various estimates suggest that up to 10 percent of the total population, if not more, make a living from artisan mining in countries like Angola and Sierra Leone. Based on anecdotal observation, diggers receive a small share of diamond export earnings. Most of them live in precarious conditions. Due to the lack of appropriate micro-finance facilities, most diggers have to borrow from local “godfathers” who provide them with rudimentary equipment and food for their families. But, because diggers are overcharged for supplies and underpaid for diamonds, many remain indebted to their “godfathers” forever.

#### **4.3.1 Financial Assistance**

42. Micro-finance institutions could break this vicious circle. These would face difficult problems since a digger may remain many months without finding a diamond and then suddenly make a valuable find. The risk of non-repayment could be mitigated by lending to cooperatives of diggers rather than to individual diggers. With appropriate micro-finance facilities, a number of families belonging to the same cooperative could get together to borrow for purchasing improved equipment, such as motor pumps and excavators. By digging deeper holes, labor productivity could be raised and damages to the top soil reduced. Because artisan miners would have to move less frequently from one area to the other, population in mining sites could be somewhat stabilized and it would become easier to improve the infrastructure and to integrate artisan mining into the rest of the economy. However, in such troubled areas setting up micro-finance institutions will be challenging, especially given the miners’ mobility<sup>25</sup>.

#### **4.3.2 Public Health Assistance**

43. Like other migrant workers, diggers are a high-risk group for HIV/AIDS which is widespread in artisan mining areas. This raises a social problem which existed before rebels took over and will not disappear when peace returns. Aggressive public health measures to prevent the further spread of HIV/AIDS and to provide social and medical

---

<sup>25</sup> The need for micro-finance facilities was stressed in a workshop on monitoring the diamond sector held in Freetown in December 2000 with USAID assistance. The group agreed that a special workshop on the subject should be held early in 2001.

support to HIV-positive members of the community could provide an important contribution to the quality of life in artisan mining communities. This would require the provision of basic health facilities with means of containing the spread of HIV/AIDS. An information, education and communication (IEC) campaign may be needed to facilitate the distribution of condoms and ensure the regular supply of drugs for opportunistic illnesses. To achieve this, the Bank could collaborate with NGOs that are able and willing to contribute to the reconstruction of mining areas as soon as the security situation allows.

#### **4.4 Related Conflict Prevention and Post-Conflict Reconstruction Activities**

44. The World Bank is already providing significant financial assistance to both Sierra Leone and Angola with a view to supporting the consolidation of peace processes in these countries. In this context, the effective elaboration of economic reintegration strategies for ex-combatants and the provision of timely community-based reconstruction assistance can play an important role in stabilizing alluvial diamond areas. Timely reconstruction and reintegration assistance may help to reduce insecurity and slow the rate of labor migration to diamond fields by providing alternative income-generating opportunities to war-affected civilian populations and to potentially volatile ex-combatants.

45. It is worth noting that the illicit export of diamonds is only one facet of the weapons for diamonds deal. The other facet is the illicit import of weapons. This should be relatively easier to control, since tons of weapons can be purchased with few diamonds. Following a UN report noting that Liberia played a major role in providing the RUF with weapons in exchange of diamonds, in mid-January 2001, the United States submitted a draft resolution to the Security Council that would ban Liberia's diamond and timber exports, and stop international flights into the country. To prevent such sanctions which would isolate the country, a BBC correspondent reported that "Mr Taylor may be indicating that he is withdrawing support from the rebels without admitting that he supported them in the first place."<sup>26</sup> Such proposals may have the effect of weakening the position of the RUF and it has been reported that some units of the RUF are now moving towards diamond sites in Guinea. This suggests that measures to curb the weapons for diamonds trade need to be applied in the entire region. It remains that the most effective way of curbing trade in conflict diamonds would be for governments to regain control of the diamond sites, as illustrated by recent developments in Angola. However, arms control and military intervention are not dealt with here, since they clearly fall outside of the Bank's mandate.

46. Finally, the World Bank can further contribute to the resolution of conflict diamond issues in its related conflict prevention and post-conflict reconstruction activities. In regions that contain alluvial diamond resources and which are vulnerable to violent conflict, the Bank could help to prevent the emergence of violent conflict by helping governments and communities to strengthen transparent governance systems for the extraction and processing of the diamonds and by providing financial assistance to the

---

<sup>26</sup> BBC news 01/22/01, 11:18 GMT.

strengthening of the civil service and judiciary. Additionally, targeted micro-finance, public health and micro-finance interventions for mining communities could strengthen their stake in peaceful development.

## **5. Conclusion**

47. As specified in Operational Policy 2.30, “ the Bank recognizes that economic and social stability and human security are pre-conditions for sustainable development. Violent conflict, within or between countries, results in loss of life and destruction of assets, contributes to social and economic disintegration, and reverses the gains of development, thereby adversely affecting the Bank’s core mission of poverty reduction.” In accordance with this policy and its broad mandate, the Bank is therefore challenged to help member countries in addressing the complex issues raised by conflict diamonds.

48. Taken in isolation, none of the actions reviewed above would be sufficient to solve the problem of conflict diamonds. However, an appropriate combination of actions could help if these were integrated within a comprehensive framework supported by governments, artisan diamond communities, the private sector, and the international community. Finding ways of improving social conditions in the mining sites may be the most critical and the most difficult issue. It may require the establishment of micro-finance facilities that lend to cooperatives of diggers; but these cooperatives have still to be created and prove viable.

49. *Peace keeping* and military interventions have to be complemented by nation building. The latter requires improved governance, more and better employment opportunities, poverty reduction and, more generally, resumption of growth, which is what the Bank is trying to promote in accordance with its mandate. But resumption of growth requires peace and better security, which is where the Bank and other members of the international community interact. A better knowledge of the role each party can play could help in finding realistic solutions. Although the Bank is only one actor among others, it could assist countries in formulating an action program for the diamond sector and in integrating this program into the country’s overall development strategy, given the importance of the diamond sector in the political economy of various African conflict countries.



## **Annex 1: Angola**

### **Wealth in natural resources and extreme poverty**

50. Export earnings from diamonds and oil may reach the equivalent to \$500 per capita in 2000, which would be about twice the average per capita GNP.<sup>27</sup> At the same time, two-thirds of the population live in extreme poverty and 15 percent survive on food aid. By fueling internal conflicts, Angola's wealth in natural resources has become a curse instead of a blessing.

51. The sharp increase in oil revenues since December 1998 provided additional resources to the Government which succeeded in defeating UNITA militarily in many areas and regaining control of most diamond mining sites. However, UNITA remains able to conduct guerilla operations.

52. Little is known about artisan mining, notably about flows of funds between diggers and exporters. The number of diggers has been estimated at some 300,000, which would imply that artisan diamond mining provides a living to 10 percent of the total population. Anecdotal observations suggests that many diggers live in precarious conditions, which raises social and security problems.<sup>28</sup>

### **Transparency in oil and diamond transactions**

53. The immediate and most critical problem for Angola is not to earn more dollars, it is to use them better. A major objective of the staff monitored program approved by the IMF Board in June 2000 is, therefore, to improve transparency in oil and diamond transactions and in the use of export proceeds. In this connection, the Fund and the Bank are committed to assist the government in conducting studies of the "flows of funds" in the oil and diamond sectors. These studies are timely in view of the present magnitude of export earnings and of their expected growth. Oil exports are valued at some \$6 billion and, in view of recent discoveries, Angola is likely to overtake Nigeria within a few years as the largest African oil exporter.<sup>29</sup> Diamonds represent about 10 percent of the value of oil exports; the 1999 production was valued at \$544 million by the Mining Journal and at

---

<sup>27</sup> This astounding ratio may be explained in four ways. First, GNP is lower than GDP on account of payments to foreign oil companies for profits and recovery of invested capital; in 1998, GNP was estimated at 73 percent of GDP. Second, the part of export earnings used to finance imports of ammunitions does not contribute to growth. Third, since corruption is widespread, unrecorded capital flights are sizable and they are not accounted for in the GNP.

<sup>28</sup> If diggers earned \$600 per year and received one-third of diamond export earnings as estimated in the Mining Journal (\$180 million), the number of diggers would be 300,000. With their families, diggers would account for some 10 percent of the total population. Refugees were estimated at 18 percent of the total population in 1996-99 (EBS/00/110, Box 1, page 8).

<sup>29</sup> According to the HIS Energy Group, Angola came out first among non-OPEC countries in terms of the size of oil discoveries during the 1990s and third after Saudi Arabia and Iran for oil discoveries in 1999.

more than \$700 million by the Economist Intelligence Unit. Moreover, experts believe that diamond exports could increase substantially if peace were restored.<sup>30</sup>

54. For diamonds, flows of funds cannot be accounted for easily. Due to widespread smuggling, official export data are misleading because most stones are smuggled. Data derived from imports by partner countries are not reliable either since many diamonds are smuggled to third countries before being officially shipped to diamond centers. In an attempt to overcome these problems, a scheme of certificates of origin was launched with the backing of UN Security Council resolutions. However, the scheme was not effective before February 2000 and progress has been limited since.

55. It would be useful to follow the flows of funds starting from the mining companies and ending with the taxes and license fees which reach the Treasury. But this will not be enough to solve the diamond problem. Additional issues should be addressed, notably: What is the desirable balance between company and artisan mining? How can social and economic conditions of diggers be improved in the artisan sub-sector? And how can smuggling incentives be reduced?

#### **Governance issues**

56. The access to diamond resources in Angola is not granted in an transparent manner. The rights of investors are not fully protected as government changes the rules of the game frequently, and the government's policy towards artisan miners fails to encourage the development of artisan mining in a sustainable way, through an enabling set of policies and laws. Guaranteeing access to the resource under clearly defined and fair conditions and security of tenure of mining titles (including for artisan diggers) is key to the future of the sector in Angola and requires an independent mining registry system (mining cadastre).

#### **Kimberlite versus alluvial diamonds**

57. Company mining and artisan mining raise different problems. Angola has a number of kimberlite pipes, which could be profitably exploited with mechanized technologies, and several reputable mining firms would be interested in making the necessary investments if security were restored. In addition, Angola has large deposits of alluvial diamonds which account for the bulk of the ongoing mining activity. Clear borderlines should be drawn between the territories reserved for mechanized kimberlite mining and those open to artisan mining. The problem of immediate concern is that of alluvial diamonds which have been UNITA's source of financing and remain the major source of smuggling.

---

<sup>30</sup> Arye Barboy, an official with Ascorp (the Angola Selling Corporation), stated on 6/19/00 that official exports could reach \$800 million in 2000, far exceeding the \$600 million forecast made by Ascorp five months earlier.



## **Conflict diamonds and artisan mining**

58. Angola occupies a special place in this regard. According to estimates presented in July 2000 at the World Diamond Congress, 60 percent of the conflict diamonds sold in 1999 originated from Angola.

59. In response to the threat of an anti-diamond campaign similar to the campaigns previously launched against fur and ivory, the diamond industry decided to establish certificates of origin and to enforce a tighter professional code of ethics all the way from the mine to the jewelry shop. The creation of a two-tier marketing channel was suggested. The first tier could not be contaminated by conflict diamonds. The second could be and, in this tier, diamonds would be sold at a discount. To avoid being relegated to the second tier, Angola hurried in drawing up a new plan. According to the plan, each of the 300,000 estimated (illegal) diggers (garimpeiros) would be issued a bar-coded license with the digger's personal history form which would be fully computerized. Only those holding a license would be allowed to carry diamonds and Ascorp<sup>31</sup> (the Angola Selling Corporation which was granted monopoly purchasing powers) could buy diamonds only from license holders.<sup>32</sup>

60. The government plan leaves scope for smuggling. First, many of the diamonds found by garimpeiros are smuggled across the DRC border where diamonds can be sold at a higher price than to Ascorp. In an attempt to reduce this practice, Angola's vice minister for geology and mines announced on September 25, 2000 that garimpeiros have a 45-60 day period to apply for a prospecting license. However, experience suggests that smuggling will continue if the price differential is sizable. Second, leakage can occur between the time diamonds are purchased by official buying offices and paid for by importers. Such leakage could be reduced if Ascorp exported exclusively to diamond centers with tight security. Thus, with the proposal presented by the Diamond High Council, diamonds would be valued at receipt by the importer and the value would be transmitted electronically to the Central Bank, the Treasury and the IMF.

61. In the proposed computerized scheme, it would be desirable to match the licensing of diggers with their working areas which could be identified with GPS positioning. This would require a review of existing contracts. It has been reported that Ascorp reduced unilaterally the size of mining concessions which gave rise to a number of recriminations, notably from De Beers.<sup>33</sup> The situation remains fluid since the government entered in a new contractual arrangement with a Russian firm in August 2000.

---

<sup>31</sup> Endiama (the Angola state diamond producer), Leviev (an Israeli-Russian concern) and Sylvan Golberg (an Antwerp-based diamond dealer) joined forces to form Ascorp.

<sup>32</sup> See the report on Angola issued by the Economist Intelligence Unit in August 2000, pages 26-27.

<sup>33</sup> A court action in Belgium led to the seizure of Ascorp's Luzamba diamonds on their way to Antwerp.



## **Annex 2: Sierra Leone**

### **The problems of Sierra Leone and Angola are different**

62. The government of Angola has regained control of most diamond sites, which is far from being the case in Sierra Leone. Moreover, Angola benefits from very large oil exports while Sierra Leone is entirely dependent on oil imports. In 1999, Angola's oil export earnings were higher than GNP. By contrast, Sierra Leone's exports of products other than diamonds accounted for less than 1 percent of GNP.

63. Export earnings from diamonds were estimated in 1999 at \$138 million, of which \$70 million went to the RUF and at least \$10 million to the Civil Defense Force (CDF), a militia organization presently supporting government forces.<sup>34</sup> Another \$50 million consisted of smuggled diamonds collected in sites not controlled by the RUF and the CDF. Of these \$50 million, a large part was used to finance the import of consumption goods which were sold in Sierra Leone in order to generate the local currency needed to purchase raw diamonds from diggers and their trading agents.<sup>35</sup> The remainder was the dealers' profit invested abroad. Since diamond exports through official channels amounted to only \$1.2 million in 1999, the Central Bank remained almost entirely dependent on external assistance for its foreign exchange supply.

### **Diamonds will play an important role in the recovery process**

64. Agriculture and the informal sector are the major employment providers in Sierra Leone. However, diamonds played a key role in the conflict and will play an important role in the country's recovery, or the failure to achieve recovery. It is widely acknowledged that Sierra Leone is well endowed with mineral resources other than diamonds. Before the conflict, it was the world's second largest producer of rutile and it had a bauxite mine operated by Alusuisse.<sup>36</sup> Both mining operations have been closed since 1995. Moreover, the country, which has a large agricultural potential, currently has to import most of the rice it consumes. In 1998 and 1999, rice accounted for over one-fourth of the country's recorded imports.

65. Rutile and bauxite mining could be reactivated. The rehabilitation and expansion of the rutile mine is presently under discussion with a view to resuming production in

---

<sup>34</sup> The \$138 million estimate is taken from the Mining Journal, London, 6/16/00. It is broadly consistent with the \$123 million imports from Sierra Leone by partner countries (of which \$47 million by Belgium), as recorded by the IMF Direction of Trade Statistics, because a sizable part of the diamonds mined in Sierra Leone are exported from other countries and because non-diamond exports are very small. The \$70 million estimate for conflict diamonds is taken from a paper presented by A. Coxon, De Beers, in Kimberley, 5/11/00. The same figure has been quoted in several recent publications. The \$10 million estimate is taken from a statement made by P. Smith on 8/1/00 at the UN Security Council. These figures provide only broad orders of magnitude largely derived from estimates made by importing diamond centers.

<sup>35</sup> Traders did not need to exchange dollars for leones, since the rice bought in dollars was used to buy diamonds sold in dollars. It could be viewed as a barter between diamond and rice.

<sup>36</sup> The bauxite has special properties making it particularly valuable.

mid-2002.<sup>37</sup> Sierra Leone could become self-sufficient in rice and it could export a number of fishery and agricultural products; but this cannot be achieved soon. By contrast, mining of alluvial diamonds was not interrupted by the war, and it will continue when the war is over.

### **Preparation of a contingency plan**

66. Once the mining sites are under government control, a well thought-through course of action should be implemented which needs advance preparation. The military should not be relied upon to suppress diamond smuggling. A free market solution based on the reduction of smuggling incentives appears more promising. The government is presently considering the possibility of establishing partnerships with reputable diamond firms but different solutions may need to be considered for and applied to: (a) artisan mining of alluvial diamonds which constitute the only ongoing activity; and (b) the two kimberlite pipes and related dikes in Koidu which could be exploited with modern technology by reputable mining companies.

67. Industrial mining of the kimberlite pipes cannot start right after the war is over. It would require sizable investments by foreign mining companies. Relevant agreements would have to cover several aspects, including: (i) the need for exclusive exploration and exploitation rights on a specified territory, which would require cancellation/liquidation of eventual existing liens with appropriate compensation if needed; (ii) the requirement to export exclusively through official channels and meet agreed payments of taxes and royalties; (iii) the need for agreed arrangements with the government regarding the rehabilitation of basic infrastructure and social services, the training of the local labor force and the restoration of the environment; and (iv) the need for an effective security force, which would require appropriate arrangements and coordination with the national police and military institutions.

68. Exports of alluvial diamonds through official channels increased sharply in a brief period, once it became known in late June 2000 that an embargo was imminent and before the embargo was enforced following the July 5 resolution. After certificates of origin became available mid-October 2000, exports through official channels increased sharply again, although delays occurred due to disputes on methods of payment. It has been argued that export licenses could have been allocated in a more transparent manner and it is generally believed that the authorities have limited control of the conduct of operations in diamond sites (even if those occupied by the RUF are excluded). It can be argued that, given existing implementation weaknesses, regulations should remain simple.

69. The underlining policy should aim at transforming diamonds from a source of conflict into a source of growth. In this connection, the Bank could consider updating the 1995 mining sector review and also help deal with the social aspects of the diamond sector by investigating the questions such as: What is the approximate number of the

---

<sup>37</sup> Information based on a meeting held by Sierra Rutile Limited with MIGA on 10/27/00.

diggers? Do many diggers live with their families on the mining sites and what are the basic social services available? Do family members have other economic activities besides diamond digging? What are the channels for acquiring basic consumption goods and are prices much higher than in Freetown? How are diggers remunerated and what share of diamond export earnings do they receive? What credit facilities are available and how many diggers are kept in dependence from their creditors? Could labor productivity be raised and how? Exchange programs with diamond centers could also be worked out and a few visits could be arranged to countries, such as Peru, where progress in artisan mining was achieved.



### **Annex 3: Democratic Republic of the Congo**

70. The DRC was ranked by the Mining Journal as the fourth largest diamond producer in terms of values, behind Botswana, Russia and South Africa (Table 1).<sup>38</sup> Production was valued at \$725 million in 1999 with an average price of \$33 per carat, which was half the world average because of the high proportion of industrial diamonds. For the same year, the value of conflict diamonds was estimated by De Beers at \$35 million, which represented only 5 percent of total production.

71. The cease fire line established under the Lusaka peace accord bisects East Kasai province, leaving most artisan mining within the government-controlled area. The rebel-held area accounts for about half of the country and is de facto managed as a territory distinct from DRC, with exports of gold, diamonds and various agricultural products used to finance needed imports. There are few diamond mines in rebel hands. In the area controlled by the government, diamonds come from one industrial mine (MIBA) and widespread artisan mining in the Kasai region.

72. In the 1980s, diamonds were the most important source of export earnings after Gecamines which produced copper and cobalt for exports. With the sharp fall in Gecamines' output, diamonds became by far the largest source of export earnings for the DRC, but only part of these earnings went through the central bank. During the last two years, a number of mining contracts have been cancelled by the DRC government and marketing policies have been frequently modified. Some measures had the immediate effect of driving diamond exporters out of the country; notably to Congo-Brazzaville, the Central African Republic, and rebel-held Kisangani.

73. In October 1998, the purchase of raw diamonds was nationalized and foreigners were banned from diamond producing areas. Shortly thereafter, the use of dollars was prohibited. As a result, official sales virtually disappeared and, after a brief period, private "comptoirs" were restored to legality. Policies were changed again in January 1999, when a precious metal bourse was established with a \$3 million membership fee. Again, official sales vanished almost immediately. In March 2000, the prohibition of using dollars in domestic transactions was relaxed by the creation of free currency zones where foreign exchange dealers could operate in the street and dollars traded at about four times the official rate. In October 2000, the prohibition of the use of dollars and other foreign currencies in domestic transactions was rescinded.

74. It would be desirable to liberalize the diamond market by abolishing the export monopoly<sup>39</sup> and allowing access to foreigners in diamond areas. The Bank is extending technical assistance to the government in selected mining related areas, including the

---

<sup>38</sup> Part of the production reported as originating from the DRC may, however, come from alluvial diamonds smuggled from Angola. This could explain why the production of Angola reported by the Mining Journal is lower than the one estimated by the Economist Intelligence Unit.

<sup>39</sup> At the end of July 2000, an 18-month monopoly was given to IDI diamonds which is a joint venture with an Israeli company.

preparation of a new mining code. In February 2000, the Bank sponsored a workshop on ways of introducing best mining legal practices. A panel of experts was established in June 2000 under a resolution of the UN Security Council to assess “the illegal exploitation of natural resources and other forms of wealth in the DRC”. The panel members were nominated in August and their report is expected in the spring of 2001.

75. The assassination of President Laurent Kabila in mid-January 2001 has changed the situation for the DRC and other countries involved in the Great Lakes conflict.



## **Selected Bibliography**

### **Belgium**

“Diamonds and Belgium”, Ministry of Economic Affairs, 2000

“Diamonds and Belgium”, Imports and exports with data up to June 2000, regulations and procedures.

« A new approach to valuations and consulting based on independence and transparency» June 2000, Independent Diamond Valuers, Antwerp.

### **Canada**

“La valeur ajoutée dans l’industrie canadienne du diamant” Territoires du Nord-Ouest, September 1998.

### **Sierra Leone**

“The Mines and Minerals Act 1999”, S.L. Presidency, 7/16/00.

“The Community Reintegration and Rehabilitation Project”, GOSL, February workshops, April 2000.

### **De Beers**

Annual Report 1999.

Bankers’ Booklet 2000.

Diamond Exploration.

The diamond Industry.

Deswana Diamond Co.

Best Practice Principles.

“Recommendations for Sierra Leone and estimates of conflict diamonds”, Andrew Coxon 5/4/00.

The diamond Pipeline, the Current and Future Regulatory Frameworks, 5/11/00.

Nicky Oppenheimer, South African Business Association, 6/26/00.

Testimony on Conflict Diamonds to the US Congress 5/9/00.

### **HDR Diamond High Council**

“Strategic Plan for Transparency in African Diamond Trade”, Diamond High Council, HDR, 7/12/00. Tables HDR.

“Progress report on Conflict Diamonds” HDR, Antwerp October 1999.

### **World Diamond Congress**

Peter de Meeus, Managing Director HDR, 7/17/00.

R. Fowler, Chairman Security council Angola, 7/18/00.  
L. Forem, President of the World Federation of Diamond Bourses (WFDB), 7/13/00.  
J. Handley, Canada western territories.  
K. G. Moshashane, Botswana, 7/19/00.  
Joint Resolution of the World Federation of Diamond Bourse (WFDB) and Intentional  
Diamond Manufacturers association (IDMA), 7/19/00.  
Joint press statement by civil society organizations, 7/19/00.

## **IMF**

Angola RED, SM/97/245, 9/24/97.  
Staff Report Article IV, EBS/00/1 10, 6/19/00.

## **World Bank**

Sierra Leone, Interim Support Strategy, IDA, /99-191.  
Government of Sierra Leone Disarmament, Demobilization and Reintegration Program,  
Progress Report 2, March 31, 2000.  
Community Recovery and Rehabilitation Credit, Sierra Leone, P 7355 SL, 1,26,00.  
Mining- Sector Review, 01/23/95.  
World Development Report (WDR) 2000/01.  
Operational Policy 2.30, Development Cooperation and Conflict, 01/01  
Bank Procedures 2.30, Development Cooperation and Conflict, 01/01

## **United Nations**

Final Report of the Panel of Experts on Violations of Security Council Sanctions  
Unita (referred to as the Fowler report), 03/10/00.  
Final report of the Monitoring Mechanism on Angola Sanctions, 12/21/00.

## **Security Council – July 31 August 1, 2000**

Belgium, S de Loeker.  
Liberia, Monier Captan.  
Sierra Leone A. M. Deen, S. E. Rowe.  
UK. Greenstock, Pattison, plus selected open sources references.  
US. Richard Holbrooke, H. Jeter, Fact sheet.  
De Beers, A. M. Coxon  
HDR, Mark H.G. Van Bockstael.  
Ralph Hazelton.  
Patrick Smith.  
Brian Wood  
Press Briefing

## **USAID**

“Diamonds and armed Conflict in Sierra Leone”, Working paper 05-18-00.  
Amnesty International.

“Sierra Leone, La Guerra dei Diamanti”, June 2000.

“Sierra Leone, Rape and other forms of sexual violence against girls and women”,  
6/29/00.

## **Global Witness**

“A rough Trade; The Role of Companies and Governments in the Angola conflict”  
December 1998.

Angola “A crude awakening”, December 1999.

“Conflict Diamonds. Possibilities for the Identification, Certification and Control of  
Diamonds”, June 2000.

## **Partnership Africa Canada (PAC)**

“The Heart of the Matter, Sierra Leone, Diamonds and human Security”, January 2000.

## **Journal Articles**

The Mining Journal: “Conflict diamonds” 6/2/00; “The diamond mining scene” 6/16/00;  
“De Beers’ new strategy” 7/14/00.

The Economist Intelligence Unit Country report Angola, 8/10/00.

The New Yorker, Letter from Angola, “Oil and Blood” Jon Lee Anderson, 8/14/00.

“Market Forces add Ammunition to Civil Wars” Paul Collier, Anke  
Hoeffler, July 2000. Oxford Study.

The Economist, “The Diamond Business” 6/3/00.

Atlantic Monthly, “Have You Ever Tried to Sell a Diamond” Edward Jay Epstein,  
February 1982.

“Les Gemmocraties, l’conomie politique du diamant africain” by Francois Misser  
and OlivierVallee, editions Desclee de Brouwer, 1997.

“Diamond Traders Act on Africa War Issues”. New York Times 9/8/00.

“Sierra Leone Diamond Certification Wins UN Approval”. Associated Press, 8/18/00



---

## Africa Region Working Paper Series

---

- ARWPS 1      Progress in Public Expenditure Management in Africa: Evidence from World Bank Surveys –  
January 1999  
*Christos Kostopoulos*
- ARWPS 2      Toward Inclusive and Sustainable Development in the Democratic Republic of the Congo –  
March 1999  
*Markus Kostner*
- ARWPS 3      Business Taxation in a Low-Revenue Economy: A Study on Uganda in Comparison with  
Neighboring Countries – June 1999  
*Ritva Reinikka, Duanjie Chen*
- ARWPS 4      Pensions and Social Security in Sub-Saharan Africa: Issues and Options – October 1999  
*Luca Barbone, Luis-Alvaro Sanchez B.*
- ARWPS 5      Forest Taxes, Government Revenues and the Sustainable Exploitation of Tropical Forests –  
January 2000  
*Luca Barbone, Juan Zalduendo*
- ARWPS 6      The Cost of Doing Business: Firms' Experience with Corruption in Uganda –  
June 2000  
*Jacob Svensson*
- ARWPS 7      On the Recent Trade Performance of Sub-Saharan African Countries:  
Cause for Hope or More of the Same - August 2000  
*Francis Ng, Alexander J. Yeats*
- ARWPS 8      Foreign Direct Investment in Africa: Old Tales and New Evidence - November 2000  
*Miria Pigato*
- ARWPS 9      The Macro Implications of HIV/AIDS in South Africa: A Preliminary Assessment - November  
2000  
*Channing Arndt, Jeffrey D. Lewis*
- ARWPS 10     Revisiting Growth and Convergence: is Africa Catching Up? -  
December 2000  
*Charalambos G. Tsangarides*
- ARWPS 11     Spending on Safety Nets for the Poor: How Much, for How Many? The Case of Malawi -  
January 2001  
*William James Smith*
- ARWPS 12     Tourism in Africa - February 2001  
*Iain T. Christie, Doreen E. Crompton*

**Headquarters**

1818 H Street, N.W.  
Washington, D.C. 20433, USA

Telephone: (202) 477-1234  
Facsimile: (202) 477-6391  
RCA 248423 WORLDBK  
Cable Addr.: INTBAFRAD  
WAHINGTONDC

**Working Paper Series web address:**

<http://www.worldbank.org/afr/wps/index.htm>

**European Office**

66, avenue d'Iéna  
75116 Paris, France

Telephone: (1) 40.69.30.00  
Facsimile: (1) 40.69.30.66  
Telex: 640651

**Tokyo Office**

Fukoku Seimei Building, 10th Floor  
2-2-2 Uchisaiwai-Cho  
Chiyoda-Ku, Tokyo 100-0011 Japan

Telephone: (81-3) 3597-6650  
Facsimile: (81-3) 3597-6695  
Telex: 26838



**The World Bank**