

**United States Agency for International Development (USAID)
Office of Transition Initiatives (OTI)**



SIERRA LEONE: “CONFLICT” DIAMONDS

**PROGRESS REPORT ON
DIAMOND POLICY AND DEVELOPMENT
PROGRAM**

March 30, 2001

www.usaid.gov/hum_response/oti

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USAID Office of Transition Initiatives (OTI)

Sierra Leone: “Conflict” Diamonds

Progress Report on Diamond Policy and Development Program

March 30, 2001

Introduction

The link between diamonds and armed conflict in Sierra Leone is obvious, and has been exposed, investigated, and deplored by humanitarians, journalists, politicians, and diamond industry leaders. Less obvious are the complex, entrenched relationships between exploitative systems of financial intermediation and resource management, poverty, and the spectacular, mysterious wealth of the diamond trade. Diamonds have facilitated, not caused, armed conflict. Pre-war economic and social injustice, which developed during the war into the illegal, and finally criminal, behavior common of the diamond traffic in Sierra Leone, must be addressed as a complex development problem.¹

In 1999, Sierra Leone's official diamond exports were about \$1.2 million, compared to a conservative industry estimate of \$70 million as the real commercial value. The other \$68.8 million of estimated value was lost to illicit and criminal activity.

Local and international smuggling have enabled the Revolutionary United Front (RUF) rebels and their allies and accomplices to freely and lucratively market diamonds in legitimate international markets. Blood diamonds have found their way onto the sorting tables of mainstream firms in Antwerp, London, Tel Aviv and New York, and presumably into jewelry purchased by customers in the United States, shielded from guilt by the permissive channels of the international market. If smuggling were not such a prominent characteristic of the diamond trade, it would be relatively easy to identify conflict diamonds. UN experts and diamond industry representatives have estimated that conflict diamonds may be as little as 4% of the world trade, in carat weight, whereas smuggled diamonds may account for 20-30%.

Smuggling is a crime against the state: a financial crime of tax evasion. Dealing in conflict diamonds should be considered a crime against humanity. The problems both for the industry and for governments are considerable. Going after a small number of criminals rash and despicable enough to deal in conflict stones is exceedingly difficult, when they must be sought among the vast numbers of legitimate traders on the world market. The diamond industry has been categorical to declare it will banish permanently from doing business in any bourse, worldwide, any industry member found trading in conflict diamonds. But the trade goes on, and no cases have been discovered.

¹ This paragraph, and some background text in this report, is drawn from USAID/OTI's Working Paper of 05-08-00, "Diamonds and Armed Conflict in Sierra Leone: Proposal for Implementation of a New Diamond Policy and Operations", posted on www.usaid.gov/hum_response/oti.

General Background

In December 1999, USAID's Office of Transition Initiatives (OTI) began providing technical assistance to the Government of Sierra Leone (GOSL) to develop new diamond policies and establish new mining and exporting operations that would address the link between diamonds and the war. In March 2000, USAID/OTI, with consultants from Management Systems International (MSI), facilitated a strategic planning workshop in Freetown, attended by GOSL cabinet members and technical personnel relevant to the diamond sector, representatives of civil society and the rebel Revolutionary United Front (RUF), and international diamond industry leaders and experts, including De Beers. Following this exercise, De Beers led the industry in May with its proposals on how to try to identify conflict diamonds and prevent their exploitation by rebels in Africa, and particularly in Sierra Leone. USAID/OTI presented a working paper on May 8, 2000 that summarized a way forward, which was subsequently published by the GOSL under the title "Guidelines for the mining and export of diamonds in Sierra Leone", and adopted by the GOSL as its policy framework. It has been systematically implemented since mid 2000.*

The international momentum on "conflict" diamonds increased, with a number of multi-sectoral and multi-national technical meetings. At a technical meeting in Kimberley, South Africa, in mid May, representatives of USAID and the Diamond High Council (HRD) of Belgium discussed the development of a Certificate of Origin for Sierra Leone, to be modeled on the Angolan Certificate which the HRD had developed with the Government of Angola. Proposed by the United Kingdom (UK), United Nations Security Council Resolution 1306 (2000) banned the import of all diamonds from Sierra Leone as of July 5, 2000, until an effective certification system was fully operational.

By this time, the US Government was working in a trilateral approach, with Belgium and the UK, to assist the GOSL with new export policies to control "conflict" diamonds, within the framework of the "Guidelines" paper. A trilateral (US, UK, Belgian) technical mission in Freetown on July 14-15, 2000, served to unite assistance efforts on behalf of the GOSL. Subsequent technical meetings in Antwerp (July 18), Washington (July 27), and New York (July 28) brought the Certification design for Sierra Leone to closure.

On July 31 and August 1, 2000, at informal UN hearings in New York, the GOSL presented the basic elements of a new mining and export regime, which it hoped would qualify for an exemption to UN Resolution 1306 (2000). In mid October, the major elements of the new export regime were operational, and the Security Council granted the GOSL an exemption to Resolution 1306, to permit exports to resume. There was widespread acknowledgement that the new regime would require continuing international assistance, effort by the GOSL, and complementary actions by the international diamond industry, in order to effectively control "conflict" diamonds.

The World Diamond Congress, meeting in Antwerp on July 17-18, 2000, was opened with a presentation by Congressman Tony Hall on "conflict" diamonds. Led by the International Diamond Manufacturer's Association (IDMA), the Diamond Congress condemned the marketing of "conflict" diamonds, and laid the foundation to constitute the World Diamond Council (WDC), whose inaugural meeting was held in Tel Aviv on September 7-8, 2000.

* The "Guidelines" document is the same text as USAID/OTI's Working Paper of 05-08-00, op. cit.

International human rights activism has been important in bringing the plight of abused civilians in Sierra Leone to the attention of international political leaders, thus creating the conditions for diplomatic and peace-keeping support to match what was already being done by the international community on humanitarian response. An important contribution to peace by human rights activists is their work to expose the link between armed conflict and diamonds in Africa, pioneered by the London-based non-governmental organization (NGO), Global Witness, and the research done by Partnership Africa Canada (PAC). There is robust engagement of US-based and international NGOs in this cause, including World Vision, Physicians for Human Rights, and Amnesty International.

Smuggling and Conflict Diamonds

Conflict diamonds are a short-term problem for Sierra Leone, which will end with the war. Smuggling, exploitative systems of production and marketing, and undeveloped financial services have caused the devaluation in diamond-producing areas that has facilitated the use of diamonds for war. USAID's approach has been to support policy change that addresses these long-term problems, while also providing a solution to conflict diamonds. When the RUF no longer control Tongo Field and Kono, there will no longer be conflict diamonds from Sierra Leone. But if there is still rampant smuggling, Sierra Leone will not have addressed the fundamental causes of the war, and peace will not bring a chance for development. This justifies USAID's broad approach.

The GOSL has established a "clean" channel for diamond exports, and has adopted a series of policies aimed at reducing the incentives for, and increasing the costs to, smuggling. Law enforcement capabilities against smuggling in 2000 were too weak to make an enforcement effort a realistic approach to smuggling. After the war, as the country's security structures improve, curtailing smuggling through law enforcement may become feasible. The imposition of UN sanctions, and industry announcements against conflict diamonds, such as those of the World Diamond Council, have helped by potentially increasing the costs of dealing in conflict diamonds.

USAID/OTI's approach, through public policy reform, is to reduce the incentives for smuggling, and gradually transform the diamond sector into one in which acceptable standards of good business practice prevail. USAID has similar interventions in a number of countries to help governments address the problem of corruption. Successful anti-corruption programs take an incremental approach, and deal with reforming the systems or practices that enable or permit corruption. The monitoring initiatives that are briefly described at the end of this report are part of the process of reform, and also constitute a community effort that will contribute to law enforcement.

In September 2000, USAID/OTI produced a summary Action Plan. Table 1 describes the desired "outputs" of this assistance effort.

**TABLE 1
SUMMARY OF OUTPUTS
USAID ASSISTANCE FOR DIAMOND POLICY AND DEVELOPMENT**

POLICY OUTPUTS	PROCESS OUTPUTS	PEACE & DEVELOPMENT OUTPUTS
Export procedures: Certification of Origin Valuation procedures Product, document, and information handling	Transparency: Eliminate non-disclosure and secrecy in income, foreign exchange, permits, and all kinds of transactions	Monitoring of “conflict” diamonds: exporters must have documentation to trace their rough diamond purchases, indicating the source is “non-conflict”
Licensing: Mining Export & buying agents	Accountability: - Public servants and trad. Leaders accountable to GOSL and communities - Private sector must report activities and earnings to GOSL fiscal & mining authorities	Information/Training: program of information to producing communities about control of “conflict” diamonds; confidence-building that they have the power to approve “conflict-free” transactions; training of diggers & communities in valuation
Regulatory framework for fair practices and good performance: Public auctions to prevent price/valuation collusion Licensing and banking	Anti-Corruption: constant vigilance to anticipate weak links in systems and detect and denounce possible corruption for investigation	Income Distribution: establish distribution of % of fiscal receipts to producing communities to create their stake in correct disclosure & valuation
Banking: Commercial transactions Foreign exchange Credit policy	Checks & Balances: Monitoring for transparency, accountability, and anti-corruption	Credit Program: enable diggers/mining groups to obtain credit for working capital through banks
Fiscal: Taxes & fee collection Tax distribution	Cross-checks: - Domestic/international - Trad. Soc./NGO/GOSL	Participation: org. of communities for approving legitimate transactions & role in fiscal decisions ; inclusion of all stakeholders
Law enforcement/justice: Corruption control Crime detection & prevention		

What follows in this report is a description of progress to date, including the categories listed below:

- Licensing;
- Export documentation, procedures for a “clean channel”, and identifying conflict stones at the point of export;
- Foreign exchange and banking policy;
- Export Performance; and
- Monitoring and detecting smuggling.

Background on diamond mining and marketing in Sierra Leone

Sierra Leone's diamond production is alluvial, and is “mined” over a vast area of the country's territory. See the attached map. Prior to the coup of May 1997, there were three diamond marketing centers: Bo, Kenema, and Koidu, the center of diamond-rich Kono District. Koidu was destroyed by the war in 1998, leaving Bo and Kenema as population and marketing centers. These are also the provincial capitals of the Southern and Eastern provinces, respectively. Both were safe havens throughout most of the conflict, but since the May 1997 coup, Kenema has been a battleground between the RUF and Civil Defense Forces (CDFs), militias loyal to the Kabbah Government, with Kailahun and Kono associated with tight RUF territorial domination. Bo is the heartland of the Mende Kamajors, the basis of the CDFs, that swept the RUF out of the South and parts of the East in 1996, and have maintained control ever since. Thus, the RUF have been in control of mining areas in most of the Eastern province and Kono since 1997; the CDF have controlled mining areas in the South since 1996. The only areas of historical importance to mining that are currently controlled by the RUF are Tongo Field and the Kono area. These areas are where the largest stones come from, being closer to the kimberlite source of Sierra Leone's alluvial production. After the May 1997 coup, the RUF also gained access to Makeni, where there are some new diamond-producing areas, not of historical importance.

Alluvial diamonds are found by “diggers”, who manually, or with rudimentary equipment, sift through soil and sand, digging holes up to 30 feet in depth, in areas where they think it is most likely to find stones. Only men are diggers; women are farmers and petty traders, and service the household. Most diggers are the poorest of the poor, doing body-breaking work with no certainty of finding any stones, but with the illusion of uncovering a large stone that will provide wealth for life; not a common result for diggers.

Land is communally owned in Sierra Leone. “Leases” are managed and rents collected by traditional paramount chiefs. Diggers obtain permission to dig in specified areas from the respective chief. Because of the requirement to pay a land use fee, the diggers are generally financed by “dealers”. Dealers are business people who manage groups of diggers by advancing them food, tools, and basic household goods, which they deduct from the proceeds of sales of the stones the diggers turn over to them. Over time, poverty has conspired with ignorance to create a system of virtual servitude. A new observer to the scene can hardly imagine how such exploitation can still exist in the 21st century.

The “dealers” sell to “exporters” and “agents” of the exporters, who buy and export the stones. Stones can change hands several times among dealers before they are finally exported. Prior to the coup of May 1997, some buyers declared their stones to the Government Gold and Diamond Office (GGDO), which valued them for the purpose of export taxes and statistics. Others smuggled the stones out of the country, with no documentation or registration, and were able to market them, eventually, in mainstream international markets.

During the war, the roles of dealers and buyers became quite murky. Buyers formerly would have been licensed firms, declaring at least some of their transactions to the government, obtaining export documentation, and dealing in the official foreign exchange market. Throughout the early part of the war, and up until the time of the 1997 coup, Bo, Kenema, and Koidu were safe havens, and Freetown and Makeni were scarcely even affected by the war. The smuggling of diamonds co-existed with the presence of mainstream, “legitimate” Lebanese merchants, whose (probably not fully disclosed) transactions were not part of the war economy of the RUF, but were just part of an inefficient system that evolved to accommodate the many petty stakeholders in corruption.

The final plunge into the obliteration of mainstream commerce occurred when most of the Lebanese merchants fled. What remained was a small cadre of diamond runners who now serviced only the war-makers. Those doing business during the coup had no pretext or cover of doing legitimate business, and even in 1998, after the restoration of the Kabbah government, this lapse from a shadowy, mixed economy into near total crime continued, as evidenced by Sierra Leone’s diamond export statistics of 1999. See the data presented in the section on export performance.

Even before the war started in 1991, the diamond market in Sierra Leone followed a downward spiral of degradation of legality (evidenced by declared value of exports) for many years. Two interesting summaries of this history have been recounted by the political scientist and historian Will Reno and by the authors of “The Heart of the Matter”.*

The return of most of the dealers and exporters who did business before the coup was gradual. The volume of official exports in 1999 was tiny, but a positive number. In 2000, official exports started to trickle upwards, and Bo and Kenema seemed to be doing business as usual, such as the old days; except for the fact that Kono District, Tongo Field, and other less important areas in the Eastern and Northern Provinces, were occupied by the RUF.

* William Reno, Department of Political Science, Northwestern University, Evanston, Illinois, USA; “The Heart of the Matter”, Ian Smillie, Lansana Gberie, and Ralph Hazleton, Partnership Africa Canada (PAC), Ottawa, Canada, January 2000. E-mail: pac@web.net.

Licensing*

New GOSL Policy on Licensing

The need for reform of the diamond sector, to address conflict diamonds, created the need to review the structure of the market in Sierra Leone, including the roles of business people associated with diamonds, and their agents.

One option considered last year by the Government of Sierra Leone was to license only one, or a very few, world-class firms to mine and export diamonds. This would have transferred the responsibility for controlling smuggling and conflict diamonds from the GOSL to one (or a few) private, reputable firms. At first glance a simple and thus appealing solution, it was deemed impossible to achieve, given the alluvial nature of diamonds and rebel control over a large part of the diamond-producing areas. Implementation would have required massive enforcement by foreign security forces. The GOSL reported that there were no takers for this option.

Mining Licenses

In the GOSL's presentation to the United Nations, at informal hearings of the Sanctions Committee on July 31, 2000, the Minister of Mineral Resources stated that mining would be licensed only in areas under GOSL control. Approval of mining licenses would follow the historical practices, requiring persons to first obtain land-use permission from local traditional authorities, and then to issue licenses to persons who met the minimum requirements, with the Ministry acting more as a registration than as a regulatory body. This system would enable business people who had historically been exporting diamonds to continue to do business. A copy of the GOSL policy on licensing is attached, as is a fee schedule for all categories of licenses and fees associated with mining.

Representatives of civil society organizations have stated that the fee structure presents an entry barrier for most Sierra Leoneans, who do not have enough savings to pay for mining or dealer's licenses. They are prey to higher-income business people who provide financing to them in kind, creating a relationship something like indentured servitude. The issue, as expressed by civil society representatives, is that low-income people, who cannot afford a license, feel they do not have the opportunity to circumvent dealers who, in their view, have historically exploited them. The presence of some new international buyers up country, alternative sources of credit, and better information on how to value rough stones could help prevent low-income Sierra Leonean diggers and miners from being exploited by dealers.

Export Licenses

In December 2000, the Ministry of Mineral Resources adopted a new policy for export licensing, authorizing eight "umbrella" export licenses, with a fee of \$50,000 per year for each one. Under the new policy, each license holder can have up to five agents, who must also be registered. Further, the Ministry has allowed licenses to be shared, or subdivided. The model text for an exporter's agreement with the GOSL was published in

* Part of this section is taken from pages 4 and 5 of the USAID/OTI Working Paper of 05-08-00, previously cited.

the press on December 7, 2000, and is attached. As of March 30, 2000, the status of signed export license agreements was as follows:

United States: 1 license holder, 2 co-holders, each have paid \$25,000, 1 license issued

Belgium: 1 license, 3 co-holders, each paid up, 2 licenses issued

South Africa: 1 license, 1 holder paid \$25,000, 1 license issued

India: no one paid

Israel: 2 holders, each paid \$25,000, 2 licenses issued

Sierra Leone: (citizens): 2 licenses: 1 corporation (NAMINCO) and 17 individuals joined together for the other

Sierra Leone: (non-indigenes): 5 individuals, each paid \$10,000

The changes in the system have created some confusion about who is authorized to transact business in diamonds. The intention of the Ministry at first seems to have been to limit the number of license holders. This intention has not been accomplished due to the multiple sub-divisions of the eight export license groups. Given the weak enforcement mechanisms, limiting license holders probably would not have reduced smuggling. Instead, limiting access could result in corruption, by making license holders "gatekeepers" to diamond transactions. A first step to reducing smuggling is probably to get as many of the diamond players to register, and do business through official channels.

With one transitory exception some years ago, NAMINCO is the only case in Sierra Leone in which an indigenous business group has put together enough financial resources and business experience to seriously pursue mining and exporting. Joint ventures may be one of their future options, however for the moment they seem to have pooled enough equity to constitute a viable business without foreign partners. Another outcome of this process of reform is the licensing of U.S.-based entities in the Sierra Leonean rough diamond sector, who have declared their intention to develop ways to improve the income of small-scale miners, and to provide an example of scrupulous adherence to the ban on conflict diamonds.

The major deficiency of the export license scheme at present seems to be that the policy has not been clearly defined and consistently practiced. Modifications have been improvised, creating inequities in the fees paid. The Ministry declared that license renewal would be contingent on export performance, setting a target of \$10 million of exports per year for each of the "umbrella" groups. Specific performance targets need to be specified for every license holder, and a quarterly review should be done so that when the annual review comes up, there will be no surprises.

The GOSL has conducted meetings with exporters and dealers, in Freetown and in Bo and Kenema. However, a manual or handbook of information for exporters, dealers, and miners is recommended, as well as further meetings, to ensure that there is uniformity of treatment and standard information supplied to all parties.

Certification of Origin

As reported above, United Nations Resolution 1306 (2000) prohibited the direct or indirect import of all rough diamonds from Sierra Leone, until such time as the Government of Sierra Leone put into operation an effective Certificate of Origin regime

for trade in diamonds. Using a trilateral approach, the governments of Belgium, the United States, and the United Kingdom, and the Diamond High Council (HRD) of Belgium, provided assistance to the GOSL to design, and help put into use, new export documentation and procedures. This work was well advanced before the UN adopted sanctions, therefore qualification for an exemption took only three months.

The centerpiece of the new export procedures is the Certificate of Origin. It was modeled on the Angolan Certificate of Origin, developed for the Government of Angola with technical assistance from the HRD. The trilateral team introduced significant innovations for electronically tracking exports and imports of parcels of diamonds, and for better identification using digital photographs. The GOSL presented the proposed new system to the UN at informal hearings on July 31 and August 1, 2000. An exemption under paragraph five of UN Resolution 1306 (2000) was granted in early October 2000 to permit the resumption of exports from Sierra Leone, if accompanied by the new Certificate of Origin issued by the GOSL.

As of October 2000, when Sierra Leone was granted an exemption to UN Resolution 1306 (2000), all diamond exports must be accompanied by a Certificate of Origin. In order to obtain a Certificate of Origin for legal export, the diamonds must be legally mined. Legally mined means they come only from areas under GOSL control, and are the product of a chain of legally authorized transactions, from use of the land, permission to mine, purchase by authorized dealers and agents, and export by licensed exporters. This chain does not differ substantially from the policies in effect before sanctions, however there is more scrutiny on compliance with GOSL regulations, and more still is expected as new monitoring practices are developed.

Documentation

The Certification of Origin regime consists of documentation on security paper, with two numbered, detachable slips. One of the numbered slips is inserted in the parcel of goods, and the other is a receipt confirmation, that should be physically returned by the importing authority to the exporting authority in Sierra Leone.

The Certificate has four signatures, as follows:

- Government Gold and Diamond Office (GGDO): the GGDO performs the official valuation of exported rough diamonds, and is responsible for recording and filing all information, and keeping records of the Certificates of Origin. The GGDO valuator is an expert capable of identifying the origin of stones, from the various diamond-producing areas within Sierra Leone.
- Minister of Mineral Resources: his signature attests that the exporter is duly licensed; any investigation or monitoring of the chain of transactions should be done by Mines Ministry personnel, to document that all transactions from mining to exporting were conducted by duly licensed parties.
- Governor of the Central Bank: his signature attests to the correct registration of foreign exchange, and enables tracking of the diamond exporter's "account", matching the value of diamonds exported and the value of foreign exchange imported.

- Customs Official: represents the fiscal authorities, attesting that export taxes and fees have been collected.

Electronic Tracking and Data Base

An electronic tracking system links the exporting authority (in Sierra Leone) to the importing authority, and provides advance information, sent electronically, on each parcel and Certificate of Origin. The HRD designed and installed the electronic tracking system, with a low-level security encryption incorporated in a basic office system of computer software. The HRD supplied the hardware and software to link Freetown and Antwerp, and pledged to assist other diamond importing countries to link up to the "network", at the expense of the importing country. Israel has requested information to do so, but is not yet linked.

The Certification system provides that electronic confirmation by the importing authority be made to Freetown, as well as documentary confirmation via the return of the confirmation slip, which is a detachable part of the Certificate of Origin. The physical documentation, electronic tracking and digital photographs are managed by the GOSL Government Gold and Diamond Office (GGDO). Unused Certificates of Origin are stored in the vault of the Bank of Sierra Leone (Central Bank). The offices of the GGDO are in the Bank building.

This system provides for export and import statistics on diamonds of Sierra Leone origin to be readily available.

A strict interpretation of UN Resolution 1306 (2000) and the exemption granted for GOSL exports would provide that only importing authorities of countries that are willing to adopt the Certification system, and be linked into an integrated Data Base, can receive exports from Sierra Leone without violating UN Resolution 1306 (2000). That would imply that diamonds can only be consigned at the present time to an importer in Belgium, as only Antwerp is linked to Freetown.

A loose interpretation, would require Sierra Leonean authorities to issue Certificates of Origin, but would not require the data to be confirmed by the importing country. Therefore, any country could import diamonds from Sierra Leone, as long as the parcel was accompanied by a Certificate of Origin issued by the GOSL.

Since October, there have been several cases of exports duly documented, consigned on the Certificate of Origin to London, Israel, and the United States. This matter should be clarified with the GOSL and with the UN Sanctions Committee. Given the nature of the system as a start-up operation, it should not be interpreted as a deliberate violation of sanctions for this to have occurred.

If the electronic tracking system is to be meaningful in collecting statistics, no transactions should be done outside of a linked system. This would mean that new countries that wish to join the system would have to agree to become part of the electronic loop, agree to acknowledge and exchange the information required by the system, and agree to return the confirmation slips to the GGDO in Freetown.

There were some start-up problems to the electronic tracking and documentation systems between Freetown and Antwerp, such as lack of confirmation of some parcels,

return slips not being sent, and inadequate filing systems in Freetown. Most of these problems were addressed during the first three months of the systems' operations. Periodic evaluations should be done.

The electronic tracking system is a system to exchange and confirm the information generated by the GGDO at the source. At the present time, there is no routine or obligatory examination or valuation done of the parcels by the importing authority in Antwerp.

Digital Photographs

Digital photographs are part of the electronic data system, and provide a visual description of the parcel to complement the written description by class, weight, and value, as recorded in the Certificate. Also, digital photographs have been useful to provide close-up photographs of diamonds suspected by the GGDO of coming from "conflict" zones. The photographs could be forwarded to a panel of "conflict" diamond experts for their opinion, were such a panel created. This process of consultations of opinion has been successfully done on an informal basis on at least one occasion since October. The quality of the photograph was deemed sufficient for experts to render an opinion.

Use of Certificates of Origin

Certificate of Origin number 0001 is dated October 23, 2000. The use of Certificates of Origin, since the system began, is as follows:

**Table 2
USE OF CERTIFICATES OF ORIGIN: SIERRA LEONE**

Month	# of C.O.'s	C.O. Numbers	Carat Weight	Value in US\$
Oct '00*	17	000001-000017	28,450.60	\$ 4,470,424.61
Nov '00	6	000018-000024	12,128.75	\$ 1,079,695.58
Dec '00**	8	000025-000032	9,702.16	\$ 983,014.60
Jan '01	7	000033-000039	13,486.10	\$ 1,991,773.84
Feb '01	14	000040-000053	15,384.67	\$1,909,276.29
Mar '01	11	000054-000065***	20,055.63	\$2,685,334.87
TOTAL			99,207.91	\$13,119,519.59

* Includes export of the "stockpile": diamonds held by exporters between July-Oct, when UN sanctions were in force, and exported under the exemption granted by the UN Sanctions Committee

** Certificates 000026 and 000030 had not been used as of March 1, 2001, but the numbers have been allocated to specific parcels of goods

***Certificate 000060 was cancelled due to an error being recorded on it

As important as the adoption of the new certification scheme is, it forms only part of a larger effort to control "conflict" diamonds, other elements of which are described below.

GGDO Valuation

The identification of “conflict” diamonds at the source (point of export) is now being done in Sierra Leone for the “clean” channel of official exports. Every single diamond is inspected both by the GOSL expert valuator of the GGDO, and by an independent, expatriate valuator, also expert in identifying the source of stones, as described below.

Additional experts, to inspect diamonds at the point of import, could be useful for the following functions:

- As an audit, or quality control practice, which could be accomplished by random inspections of parcels;
- To provide additional opinions, if there is a difference of opinion on the identity of a stone between the GGDO and the independent valuator, or between these two valutors and the owner of the merchandise, in the case of a confiscation.

The Government Gold and Diamond Office is responsible for inspecting and valuing all goods. The exporter presents his parcel of diamonds with the “Schedule B” form, which contains the carat weight and his estimated value per carat of sorted goods. The categories for sorting are specified by the GGDO. A description of the procedure and sorting categories is attached.

The GGDO valuator inspects the parcel in the exporter’s presence, verifies weights, and reviews the goods to be certain they have been correctly sorted. He attaches his own estimation of value per carat to each category presented. If there is a discrepancy in the value of the parcel, the GGDO uses the higher of the estimates for the purposes of levying export taxes.

The GGDO’s description of the parcel is noted next to the exporter’s description on Schedule B, which is attached to the Certificate of Origin. The summary of the parcel’s description is recorded on the Certificate of Origin.

Once the valuation has been completed, the parcel is photographed as sorted, the goods are packed in a box supplied by the GGDO, sealed, and returned to the exporter for shipment.

Independent Valuation

Independent valuation is perhaps the single most important addition that the GOSL has made to the exporting process, as an aid to building confidence in the integrity of the valuation process, and for the identification of “conflict” stones. The independent valuator is a full-time expatriate diamond expert who independently values every single parcel, and looks at every single diamond being officially exported with GOSL documentation.

The independent valuator is the Belgian firm of Zurel Brothers, whose principle is Bryan M. Zurel. Mr. Michel Lempel of Zurel Bros. is in residence in Freetown, and began his

duties the week of February 5, 2001, at the GGDO. He is present during the valuation done by GGDO, but performs his valuation separately, not making comments during the GGDO valuation. Mr. Lempel lived in Sierra Leone for several years about 10 years ago, and is well acquainted with diamonds from all parts of Sierra Leone. He has approximately 40 years of experience as a diamond buyer and valuator.

The selection of the independent valuator was done as follows. The GOSL asked the Diamond High Council of Antwerp for recommendations of competent, responsible firms. Two firms were recommended. The GOSL asked these firms for bids, and chose the firm with the lower bid. An open, advertised process to receive bids was not done. A three-year contract, with an annual review was signed by the GOSL. Payment for the services of the independent valuator will be made from the proceeds of diamond export fees, for which purpose the GOSL has earmarked 0.5% of the export value of diamonds. The total export taxes are 3%.

It is important to acknowledge that it was the Minister of Mineral Resources that requested, in July of 2000, that the "Trilateral Technical Team" facilitate the services of an independent valuator. The HRD assisted by recommending firms. It was the GOSL that designated .5% of the export taxes to pay for these services, and committed to a three-year contract with the independent valuator. This indicates the intention to address possible corruption within Sierra Leone, as it creates an independent check on both valuation and identification of conflict stones at the point of export.

Identification of "Conflict" Stones and Confiscation

The official GGDO valuator is responsible for identifying stones he believes originate from areas under rebel control. He has the expert knowledge of Sierra Leonean diamonds to do this, however this is a subjective judgement. There is no scientific test available at the present time to definitively determine the exact geographic origin of a diamond. The independent valuator also has the expert knowledge to identify the probable source of a Sierra Leonean diamond. He can validate a judgement of the GGDO valuator, or could make an identification not detected by the GGDO. The GOSL should confiscate "conflict" stones.

Smuggled diamonds are also subject to confiscation. Even before the issue of "conflict" diamonds became a public policy concern, Sierra Leone had rules and regulations that apply to confiscated goods. Confiscated stones, whether they are smuggled diamonds that originate from areas under GOSL control or "conflict" diamonds, are sold at auction, and 40% of the proceeds goes to the person responsible for the confiscation; 60% goes to the GOSL treasury.

To date, the GGDO has not confiscated any conflict stones. Since October 2000, the GGDO has twice made an identification of stones that are suspected to be from Tongo Field, an area under rebel control. At the time of these two cases of tentative identification, the independent valuator had not yet been retained. The GGDO valuator reports he was not certain of his own judgement. Therefore, the stones were individually wrapped and photographed, and the GGDO sought an opinion of the Diamond High Council in Antwerp. In one case, further experts were consulted by e-mailing the digital photograph. The exporter was advised that the GGDO had a suspicion about the origin

of these stones, but they were not confiscated. An investigation of the exporter's buying records was not done.

The GGDO valuator reported the week of February 5, 2001, that he has not seen any further questionable stones, after the two cases cited above. He suggested that licensed exporters are either not buying such stones, or are not presenting them to the GGDO for Certification. Therefore, at the present time, according to information from the GGDO, any diamonds from rebel-controlled areas that are leaving Sierra Leone are being smuggled. They are not entering the GOSL "clean" channel, as valued and documented by the Sierra Leonean Certificate of Origin.

Foreign Exchange and Banking Policy

Foreign Exchange

Exchange rate distortions were cited in 1999 by international diamond firms as an important historical condition driving legitimate players away from Sierra Leone. This has been corrected, and diamond transactions can now be conducted officially in US dollars in Sierra Leone.

The Bank of Sierra Leone (Central Bank) has achieved stabilization of the exchange rate, and significant currency revaluation has taken place in the last six months (from about Le. 2,500 ["Leones"] to the dollar to about Le.1,750). A policy of weekly auctions of foreign exchange has contributed to this.

Another element of new policy involves ensuring that foreign exchange circulates in the Sierra Leonean economy, creating a multiplier effect. The Central Bank, as one of the signatories to the Certificates of Origin, is responsible for verifying that foreign exchange is brought into the country, obtained through reputable international banks, in approximately the same value as diamond exports, minus fees. The BSL requires an exporter to register imported dollars with a commercial bank, and to provide the BSL with a coded telex confirmation indicating the source and amount, if it is in cash dollars. A summary of the Bank of Sierra Leone's policy on foreign exchange and banking for diamonds is attached.

During November and December of 2000, there were considerable start-up problems between the Bank of Sierra Leone, the Ministry of Mineral Resources, and the GGDO. The Bank refused to sign several Certificates of Origin until the exporter complied with its rules. Exporters argued that they were not informed of the new rules in advance, and that this was causing costly delays to their exports. A normal flow of documentation seems to have been established since then, and the GGDO reported during the week of February 5, 2001, that exporters were now presenting their documentation with full compliance.

Income and its Multiplier

The problem of the low multiplier in the Sierra Leonean economy is a way of saying poverty is constantly reproducing itself despite the presence of spectacular wealth. The low multiplier relates to the amount of income staying in Sierra Leone, and to the way that income is or is not being utilized for investment. Getting more money into the hands

of Sierra Leoneans is part of the solution. Too much of the value of the diamond trade belongs to people who are not reinvesting in Sierra Leone. Another part is to have more efficient financial intermediation: a term that means getting money from the pockets of those who have money to those who use it for production; not by confiscation, but by lending and borrowing. This is standard banking practice, but it has been lacking in Sierra Leone.

More important than tax collection, the most important benefit of legitimate diamond operations to the Sierra Leonean economy is the income this should generate. If the estimated \$70 million per year of Sierra Leone's diamond value were paid to diggers and dealers, and deposited into banks in Sierra Leone to be invested and consumed in Sierra Leone, this amount of income and its multiplier would constitute an important post-conflict resource. The measures taken by the Bank of Sierra Leone to require exporters to demonstrate foreign exchange inflow are a first step to ensure that the export value of diamonds in the official, "clean" channel circulates as income in Sierra Leone.

Some training of potential borrowers in how to use commercial banking would be useful (literacy is not required, just knowing the basic rules), as well as mechanisms to pool the risk of diggers. Diamond digging, in the aggregate is not risky; but each individual's activity for a finite period of time is risky. Either risk is pooled by the credit provider (by building in a margin for individual default) or it is pooled by the user. Pooling risk by the user seems to be a more attractive option, as this method provides for group or peer compliance with disclosure. This is also consistent with the extended family and community safety-net concept of the traditional society.

Commercial banking needs a lot of work in Sierra Leone. However, the supply side of commercial banking is gradually responding to the demand of the new diamond players, particularly the U.S. based exporters. The development of commercial banking has no doubt been affected by the high-risk environment of a decade of war, including pillaging in Freetown, Bo, and Kenema, and the total destruction of Koidu.

Commercial banks are still not providing a full range of banking services at reasonable rates in Freetown or up country locations. It is important for world-class, competitive banking to be available in order to attract and keep world-class diamond buyers. Reliable safe deposit and checking account services should be available up country as well as in Freetown, and might come into use by some of the new exporters. If such services were available, the Bank of Sierra Leone could further tighten up its requirements for handling of cash. For example, it could follow the common banking practice of the U.S. and Europe, and prohibit large quantities of cash from being carried by individuals without proper documentation. This would enable investigation into smuggling, and would help to differentiate legitimate diamond traders from smugglers.

Penalties and Enforcement

More work needs to be done in Sierra Leone on law enforcement. The assistance to the GOSL provided by USAID has not covered this area to date.

The GOSL may request technical expertise on money laundering and international financial crimes to assist in the detection of smuggling, money laundering and other financial crimes.

Export Performance

Export data is available, but it is not easy to interpret, as there are so many atypical factors that have been present during 1999 and 2000. Historical data from the 90's cannot easily be used to establish production and marketing cycles for the same reasons.

In early 1999 there was no cease-fire, and violence in Freetown in December '98 and January '99 caused many business people to evacuate, particularly expatriates. Whereas Bo has been in GOSL control since about 1996, the war has waged all around it except to the South.

Some dates and events of impact on business and mining conditions are presented as follows:

May '99	Cease-Fire between the GOSL and the RUF
July '99	Lome Peace Agreement between the GOSL and the RUF
Oct '99	Approval by the UN of a Peace-Keeping Operation (UN-PKO)
Dec '99	Arrival in Freetown of first UN peace-keepers
Jan '00	Deployment of UN-PKO up country, and first seizure of UN weapons by RUF
May '00	About 500 UN troops taken hostage by RUF
May '00	Disarmament and Demobilization camps empty out as former army and rebels re-arm
June '00	British show of military force in Freetown and off-shore
July '00	British military unit taken hostage by "West Side Boys" (faction of recalcitrant SLA/RUF/urban thugs)
Aug '00	West Side Boys defeated by British operation (diamonds confiscated)
Aug '00	RUF announce new interim leader and declare they will open roads to GOSL and UN deployment
Sept '00	Cross-border violence from Liberia into Guinea at Macenta –refugees affected
Nov '00	Abuja Cease-Fire Agreement signed between RUF and GOSL
Dec '00	Cross-border violence from Sierra Leone into Gueckedou and other parts of Southeast Guinea, near diamond producing areas of Guinea – refugee crisis deepens
Dec '00	Intensive diamond digging observed in RUF-controlled areas of Sierra Leone, coinciding with dry season

Despite the slow pace of the peace process, even its near collapse in May, during 2000 there was an apparent steady improvement in business in Bo and Kenema. The main highway to Bo and Kenema was open to commercial traffic for most of the year, and the visual signs of painted storefronts and re-stocked shops are reflected in the following diamond export statistics.

Table 3
SIERRA LEONE DIAMOND EXPORTS

DATES	CARAT WEIGHT	VALUE IN US\$	AVERAGE \$ per Month
Jan-Jun 1999	2,319.03	\$ 325,029.76	\$ 54,171.63
Jul-Dec 1999	7,000.97	\$ 919,795.58	\$ 153,299.26
Jan-Dec 1999	9,320.00	\$ 1,244,825.30	\$ 103,735.44
Jan-Jun 2000	26,331.63	\$ 3,448,336.94	\$ 574,722.81
Jul-Dec 2000*	50,281.51	\$ 6,533,134.70	\$ 1,088,855.70
Jan-Dec 2000	76,613.14	\$ 9,981,471.60	\$ 831,789.30
Jan-Mar 2001	48,926.40	\$6,586,385.00	\$ 2,195,461.60

*includes the export of the "stockpile" of diamonds accumulated by some exporters during the Jul-Oct 2000 period under UN sanctions, and exported in Oct 2000 once the GOSL received an exemption
Source: GOSL, Government Gold and Diamond Office

Export statistics from the last two years show two trends. First, the increase in official exports from 1999 to 2000 clearly shows the return of some license holders. (There are not yet any exports from any of the new groups licensed in December 2000.) There were no official exports in 1998. Exports in 2000 were eight times greater than exports of 1999.

Second, the statistics from November 2000 through March 2001 show significant increases in diamonds through the official channel. A simple extrapolation from the January 2001 export level would put the annual figures for 2001 at \$14.6 million. An extrapolation from the January-March 2001 export level would put the annual figures for 2001 at \$26,3 million. It should be noted that these official exports are the "clean" channel, with the safeguards described above to prevent conflict stones from getting in. There are seasonal adjustments that could be made, however recent data is so distorted by other factors that the basis for a seasonal correction cannot be discerned. Anecdotal evidence indicates that during the dry season there is more digging and less sifting (to find rough stones) than in the rainy season.

The recent export performance in the GOSL clean channel raises a large question mark concerning current levels of smuggling of diamonds from RUF-held areas. The RUF-held areas on average possess the highest valued rough diamonds, especially Tongo Field and the Kono area. Using the extrapolation from January-March 2001, if the "normal" annual market value of Sierra Leone's exports were about \$70 million (as estimated by international industry sources), that would imply that the Kono and Tongo Field diamonds are worth about \$43.7 million per year². Either these stones are not being marketed at the present time, or else there is a lot of smuggling occurring.

Thus, we are back to the opening statements of this report: it's about smuggling. The clean channel of exports from Sierra Leone is in operation, and it may be clean of conflict stones. There are anecdotal reports of diamonds from RUF-controlled areas being brought to Kenema and Bo. If they are being sold, those transactions are in contravention to Sierra Leonean laws and government regulations. If they are being

² These estimates are very soft numbers. The only hard numbers are the actual official exports.

exported, they are being smuggled, and the importers of these diamonds are in contravention to UN sanctions, and are circumventing the World Diamond Council's decision to permanently expel any such dealers from all bourses, worldwide.

Monitoring by the GOSL

Monitoring of "conflict" diamonds inside of Sierra Leone involves two different approaches:

1. Monitoring the diamonds in the "clean" channel to identify "conflict" stones (those that originate from areas under rebel control);
2. Monitoring the transactions in the chain of custody, from the mining field to export, to identify smuggling.

The first of these tasks is being done with a fairly high degree of confidence. As described above, the GGDO expert is backed up by the independent valuator, and they could be further backed up by surprise "audits" at the importing side. The surprise audits, both random and selected, could be done both by scrutiny by a panel of experts of the digital photographs of parcels sent from Freetown, and by physical examination of the goods, if there were suspicion of "conflict" stones in the parcel.

There is very little possibility that additional conflict stones, or any other stones, can be inserted into the parcels being shipped under the new Certification regime, provided that the importing authority confirms that all documentation is complete and correct, including the digital photographs; and that the security seals are in tact. At the present time, the likelihood that exporters are including conflict stones in the goods being exported with valid and correctly executed Certificates of Origin is small, given these mechanisms for detection of conflict diamonds in the "clean channel". Exporters who wish to continue to do business are cognizant of the scrutiny being placed on exports in the clean channel of official, GOSL-certified parcels.

Therefore, it is safe to say that conflict stones are not entering the clean channel, in any significant quantities, of rough diamonds exported under the official Certificate of Origin regime. The more likely scenario for the shipment of conflict stones out of Sierra Leone is that they are being smuggled.

Apart from RUF smuggling, the incentive to smuggle is now probably substantially related to tax evasion in the importing country. The export tax in Sierra Leone is reasonable, and it is probably being fairly administered. USAID/OTI began providing some technical assistance, in March 2001, by a fiscal expert to help estimate expected receipts from all sources related to diamonds, including the export fees and income from the schedule of fees shown in the attachment to this report.

The costs to, and risks of, smuggling in Sierra Leone have increased, given the scrutiny of the international community and the existence of UN sanctions. To detect smuggling now, monitoring mechanisms within Sierra Leone must be further developed.

Monitoring is an important task of public administration. If done correctly (following regulations and procedures), on a timely basis, in the right locations, and without

corruption, it can both prevent illicit activity, and identify illicit behavior, in order to enforce the law.

The GOSL has licensing regulations on the books, but enforcement has been historically inadequate. Detection of illicit activity is in large part a responsibility of the mines monitors, whose job it is to monitor mining to detect smuggling, from the pits to the ports, and other major transit points.

OTI and MSI conducted two workshops on the subject of monitoring, one in December 2000 and one in February 2001. Their purpose was to obtain the active participation of public sector offices and individuals concerned with monitoring, and to inform key civil society stakeholders, and engage them in developing plans for better monitoring. A joint public-private effort is necessary to identify "conflict" diamonds at the source, as well as to reduce smuggling over the long term.

The GOSL has requested capacity-building for mines monitoring, including training of personnel. In addition, the GOSL would benefit from assistance to thoroughly review licensing and monitoring regulations and procedures, and assistance for the preparation of a manual for mines monitors. These are areas of on-going assistance from USAID/OTI, with MSI consultants.

Improvement of mines monitoring and revenue collection and allocation is being treated by the GOSL as an issue of public sector reform, with the active participation of the GOSL's anti-corruption unit, the Attorney General's office, and the Ombudsman. This is the public sector side.

Stakeholders

On the civil society side, probably the best information on who is smuggling diamonds is held by the producing communities themselves. It is the diggers and miners who know what stones are mined, by whom and where. It is the merchants in the diamond producing areas that hear about transactions, and see the effects of income being paid for diamonds.

If the communities themselves had an incentive for making sure diamonds mined in their area were declared, and marketed through the official, clean channel, then they might be forthcoming with information on mining, and information on smuggling. One or two people can be silenced with bribes, but entire communities cannot be bought off by smugglers.

Disclosure of diamond transactions is one of the necessary conditions for a (legally) functioning market system. Disclosure is necessary for tax collection and to identify smuggling. It is the diggers, their households, their extended families, their neighbors, and the traditional authorities that know what really happens above and below the surface of society. It is these people, the ultimate victims of war or beneficiaries of peace, that hold the key to disclosure. The mechanisms to reinforce silence and passive complicity have been stronger than the rewards for disclosure. The key to disclosure is to build in incentives for it, by those who have the information.

Incentives and disincentives

An effective instrument against tax evasion and corruption is for there to be a balance of stakeholders inside of a system that will identify corruption, by having a stake in correct practices. The collection of taxes needs to be linked as directly as possible to the receipt of benefits from those taxes by those people who have knowledge about who and how much taxes should be paid.

In December, 2000, the GOSL, by a decision of Cabinet, approved the “earmarking” of .75% of the value of exports, to be allocated to diamond producing communities. The new distribution of the total 3% export tax is as follows:

- 0.75 % to the GGDO to cover costs of GOSL valuation and export processing
- 0.25 % to the GOSL/Ministry of Mineral Resources for monitoring
- 0.50% to the independent international valuator
- 0.75 % to a new Community Development Fund for diamond-producing communities
- 0.75 % to the general GOSL Treasury
- 3.00% Total

Prior to this new distribution, the GOSL export tax was also 3%. The low level of exports in 1999 and 2000 implies tax collection was a small amount. Total collections from the 3% export tax in 1999 were US\$ 37,346.00 A comparison of the “old” (prior to the December 2000 Cabinet decision) and new distribution of the export tax is as follows:

Table 4
Comparison of the Distribution of Diamond Export Taxes
Under Old and New Policies

Recipient of export tax	Old Policy	New Policy
GGDO: valuation	1.00 %	.75 %
Independent international valuator		.50 %
Ministry of Mines for monitoring	.50 %	.25 %
General Treasury	1.50 %	.75 %
Community Development Fund		.75 %
TOTAL	3.00%	3.00 %

Order of Magnitude of the Tax Benefits of Legitimate Diamond Operations

Taxes

The following table presents projected annual receipts from diamond export taxes, for different levels of total exports.

Table 5
Projected Annual Receipts from Diamond Export Taxes

Tax recipient	Exports of: \$ 5 million	Exports of: \$10 million	Exports of: \$30 million	Exports of: \$50 million	Exports of: \$80 million
GGDO	\$37,500	\$75,000	\$225,000	\$375,000	\$600,000
GOSL for monitoring	\$12,500	\$25,000	\$75,000	\$125,000	\$200,000
Independent Valuator	\$25,000	\$50,000	\$150,000	\$250,000	\$400,000
Community Development Fund	\$37,500	\$75,000	\$225,000	\$375,000	\$600,000
GOSL Treasury	\$37,500	\$75,000	\$225,000	\$375,000	\$600,000
TOTAL	\$150,000	\$300,000	\$900,000	\$1,500,000	\$2,400,000

The allocation to the producing communities achieves two objectives. One objective is the devolution of value to the community at large, to be used for development purposes. Some might argue that this is compensation for environmental damage done by mining. There is a fee paid by the miner, additional to the land-use fee, which is supposed to pay for land reclamation. Diamond mining destroys the land for farming, as the thin layer of top soil is removed. Even if the pits were refilled, the top soil is lost in the careless, haphazard process of digging. The only way to reclaim the land is to carefully separate the top soil before digging begins, so that it can be replaced (on top), once the digging is finished. Given the primitive techniques being used at the present time, it is safe to say that no mining is being done with adherence to methods that would allow environmental reclamation. The advantage to large-scale, commercial mining is that it is relatively easier to impose standards of land use. However, it is not impossible, with a program of environmental education, for small-scale miners to adhere to practices of digging, especially the conservation of top soil, that will permit land reclamation. This will be part of the next stage of OTI's diamond development program up country.

The fees paid for environmental reparation are insufficient for the GOSL to repair environmentally wasted land. Top soil cannot be bought for this price. The fees paid are probably enough to pay for environmental education campaigns, and for monitoring of correct digging practices, that will permit land to be reclaimed for agriculture.

The objective of the new earmarking of export taxes for the Community Development Fund is to make the mining communities stakeholders in the correct operation of the

“clean” channel of exports. There is a direct link between the value of Sierra Leone’s official diamond exports and the money that diamond-producing communities will receive. On February 6, 2001, the GOSL began depositing the .75% in a special account. OTI and MSI facilitated a workshop on February 7-8, 2001, to inform a small group of representatives from the diamond-producing chiefdoms, and from Bo and Kenema, the two urban centers in the diamond-producing areas, about the new tax earmark, and in general about the issue of monitoring.

An important task, from the point of view of effective monitoring, is how to engage the communities to report diamond production in such a way that the information can be compared with export data, and also serve as the basis for the allocation of earmarked export revenues among the various producing chiefdoms.

The Bank of Sierra Leone has indicated they will publish data on official exports on a regular basis, such as once per month. The producing communities will be able to track the value of exports, and track the value of the expected tax revenue that should be paid into their Diamond Development Account, for direct distribution to their communities.

During the February workshop, participants proposed four possible models for an allocation mechanism, and these will be further discussed in March. The GOSL is expected to adopt an allocation formula developed with the participation of a broad representation of public and private sector “stakeholders”.

March 2001 Work Plan

From March 19 to April 6, 2001, USAID/OTI with Management Systems International consultants implemented the following work plan in Freetown.

1. Training for Mines Monitoring Officers

The training of the mines monitoring officers focused on search procedures, ethics, record keeping, communications protocols, and performance criteria. In addition a full review of mining regulations and the duties of monitors was to be done. A manual of monitoring operations will be developed for their field reference.

2. Revenue Receipts and Allocation

Technical assistance was provided to develop procedures for estimating, tracking, reporting, and auditing the fiscal receipts from mining licenses, monitoring fees, and export taxes. The accounts reporting needs to be transparent and easily understood by representatives of the civil society, and the diamond-producing communities.

Technical assistance was continued to help the GOSL design a system for allocating the .75% export tax ear-marked to producing communities. This was started in the workshop in February, 2001, as described above, with four models proposed to accomplish the objectives of equity in resource allocation at the same time that the tax distribution serves as an incentive to communities to help identify and prosecute smuggling and “conflict” diamonds.

3. Public Information

A public information process needs to be strengthened, including workshops to inform the public in Bo and Kenema on the new diamond policies and the community development fund, and to inform the public about the efforts to monitor mining to prevent smuggling and control “conflict” diamonds. These workshops could be carried out jointly by the GOSL with civil society organizations. It is also appropriate for civil society organizations to conduct their own information and sensitization activities.

OTI can support the dissemination of information through support to workshops as well as support for the production and airing of radio information. A preliminary proposal for a Public Information Campaign was received by OTI. It is being reviewed, and some of the activities proposed may be funded.

4. Equipping the GOSL Mines Monitors

Once the mining sector is fully reformed, and the fiscal receipts are being collected and correctly applied, the GOSL will have enough resources for a sustainable regulatory function. However, in order to jump-start the monitoring operation, which is critical to the detection of “conflict” diamonds and smuggling, OTI may assist the GOSL to equip the mines monitors, such as with equipment for the production of laminated picture IDs for all mines monitors, and for all dealers, agents, and exporters.

Note on OTI’s Methodology

This paper has reported on USAID/OTI’s assistance to the Government of Sierra Leone since December 1999 to address the link between diamonds and the rebel war. A chronology of actions and assistance provided by OTI with its consultants from Management Systems International is annexed. A number of international initiatives have developed simultaneously with this effort in Sierra Leone, including United Nations sanctions on conflict diamonds from Sierra Leone, and the creation of the World Diamond Council to coordinate industry response to this issue. International initiatives are very important to success in curbing conflict diamonds in Sierra Leone. However, the Sierra Leone program is being implemented on the assumption that international measures might support success, but should not be relied upon to solve internal problems.

The GOSL with USAID assistance has approached conflict diamonds as a complex development problem of the Sierra Leonean society: its traditional economy and contemporary business sector, government institutions, and the socio-economic systems that perpetuate abject poverty in areas endowed with alluvial wealth ready for the taking.

USAID/OTI has acted as a consultant. A consultant does not take charge of implementation; he or she recommends to the principles, and provides a longitudinal effort of diagnosis, recommendation, re-evaluation, and new recommendations. This has been OTI’s approach, working with MSI. This approach has some disadvantages, but the biggest advantage is that the resulting new policies are genuinely the product of Sierra Leonean action, therefore they are likely to have permanence.

In summary, it is the monitoring program that now requires the most attention, to complete Sierra Leone's program of control of "conflict" diamonds. Most of the new diamond policy has been adopted. The Certification system is in use. In particular, the new foreign exchange requirements, and the installation of an independent valuator are important components to the "clean" channel.

As noted at the beginning of this report, enforcement mechanisms are beyond the scope of USAID/OTI's current work in Sierra Leone. The judicial framework is important once executive orders begin to be enforced. Mechanisms for receipt of complaints need to be developed. Confiscation needs to be done according to the rule of law, and remedies need to be judiciously and expeditiously applied. The engagement of the Ministry of Justice, the Office of the Ombudsman, and the GOSL's special anti-corruption office will be necessary as the development of better mechanisms for monitoring create a demand for law enforcement.

Note on the CMRRD and the RUF

In July 1999, the Government of Sierra Leone (GOSL) and the rebel Revolutionary United Front (RUF) acknowledged in Article VII of the Lome Peace Agreement that diamonds are crucial to war and peace in Sierra Leone. The Lome Agreement provided for the creation of a new Commission for the Management of Strategic Minerals, National Reconstruction and Development (CMRRD), and provided a post-conflict role for the RUF, to hold appointed office in this new government para-statal organization, that would develop new diamond policies. At the time of the peace agreement, the RUF controlled some of the most important diamond-producing areas in the country. They still do. Despite adherence to a cease-fire in Sierra Leone, the RUF have not disarmed and demobilized, and have not granted free and full access to GOSL authorities and UN peace-keepers into RUF-held territory.

Diamond development initiatives have proceeded without the CMRRD. Once the GOSL has full control over all diamond-producing areas, and if RUF combatants have voluntarily disarmed and demobilized, the GOSL will have the prerogative to grant mining licenses to former combatants, who pledge to reintegrate as demobilized ex-combatants. Hundreds of ex-combatants are pursuing new livelihoods today in many areas of Sierra Leone. Reconciliation and reintegration will have to be achieved in the diamond-producing areas currently under RUF control, as well. Through the new earmark of export taxes, the GOSL will be supporting communities in their development with the new diamond development funds.

Acronyms:

GOSL: Government of Sierra Leone

NGO: non-governmental organization

GGDO: Government Gold and Diamond Office

BOSL: Bank of Sierra Leone (Central Bank)

HRD: Diamond High Council (Belgium)

USAID: United States Agency for International Development

OTI: Office of Transition Initiatives

MSI: Management Systems International

TA: technical assistance

CO: Certificate of Origin

WDC: World Diamond Council

UN: United Nations

US: United States

UK: United Kingdom

Annexes – available electronically or by FAX, as indicated

1. Electronic: USAID/OTI Questions and Answers on “Conflict” Diamonds, 03-15-01
2. Electronic: Chronology of Actions and Assistance of USAID/OTI to April 6, 2001
3. FAX: Map of Sierra Leone: UN Blue Line to March 15, 2001 and major diamond areas in production
4. FAX: Certificate of Origin Number 000001
5. FAX: Procedures for the Issuance of Diamond Export Licenses by the Government of Sierra Leone
6. FAX: Mines and Minerals Act, Artisanal/Small-Scale Mining Licence, Application for Precious Mineral Exporter’s Licence
7. FAX: Schedule 1: Revised Fees for Small-Scale and Artisanal Mining and Marketing under the Mines and Minerals Act
8. FAX: Agreement between the Government of Sierra Leone and Diamond Exporters
9. FAX: Procedures for the Valuation of Diamonds by the Government Gold and Diamond Office (GGDO)
10. FAX: Banking Guidelines for Diamond Exporters
11. FAX: United Nations Security Council Resolution 1306 (2000)

USAID Office of Transition Initiatives (OTI)

Q's and A's on "Conflict" Diamonds: Sierra Leone

03-15-01

1. Is there, at the present time, a "clean" channel of diamond exports from Sierra Leone?

Yes, there is a channel for official, conflict-free diamonds from Sierra Leone, but only to Antwerp at the present time. UN Resolution 1306 (2000) of July 5, 2000, prohibited the import of Sierra Leone diamonds unless the Government of Sierra Leone (GOSL) had an operating Certification of Origin system. In October 2000, the UN granted the GOSL an exemption, to restart diamond exports using a new certification system that was developed with technical assistance from a trilateral team (US, Belgium, and UK), mostly provided by the Diamond High Council of Belgium and USAID's Office of Transition Initiatives. The UN-approved certification system consists of the Certificate of Origin document, plus an electronic tracking and confirmation system with digital photographs. There is a chain of authorized transactions from the exporter back to the diamond digger, however, the GOSL does not have the historical practice or the current means to adequately monitor all of the transactions. More work on monitoring has to be done before we can assert that conflict stones are not entering this clean channel.

The reason this channel is only open to Antwerp is because part of the new Certification of Origin system involves electronic tracking of exports and imports, digital photographs of parcels, and other procedures to ensure that the goods certified at origin are the same goods that are officially imported at destination. The system is not complicated. It should be adopted and installed by all importing countries, but is currently only in use in Antwerp.

2. Is it better to stop the exports of all diamonds from Sierra Leone, until an adequate system for monitoring can be put in place?

To prohibit exports (continuation of sanctions) and thus stop the flow of diamonds through the official (as yet imperfect) channel would be counter-productive, as it would encourage the continuation of smuggling. Smuggling is allegedly widely practiced or tolerated in the international diamond trade, and is the most important obstacle to a "clean" channel. Smuggled diamonds have accounted for a large proportion of Sierra Leone's output for several years, and almost 100% in 1999. "Conflict" stones are mixed into the flow of smuggled goods. Without controlling smuggling it is impossible to control 'conflict' diamonds. Therefore, resuming legitimate, declared exports is fundamental to getting control over "conflict" stones. It is a necessary, if not sufficient, condition to solving the problem.

3. Are there any indicators that smuggling has been reduced out of Sierra Leone since the new Certification of Origin regime went into effect?

Yes, there are several indicators. 1. Diamond industry experts consulted in Conakry and Freetown suggest that a reduction in recent exports from Guinea approximately matches the trend of increased exports from Sierra Leone. 2. There are anecdotal

reports that known traders are not as willing to purchase parcels of stones of questionable origin, and some dealers are having problems selling some parcels in Guinea and Liberia; and there are some reports of lower prices in these markets. 3. Official exports from Sierra Leone have increased. 4. Diamond exporters holding licenses before sanctions went into effect declare that they were holding stones, waiting for a legitimized new regime. This constituted the so-called "stockpile", and there are many reports in Freetown about pressure to export stones before the new certification regime went into effect on October 27. Official exports were suspended from July 6 to October 27. Delays in authorizing some Certificates of Origin, in late November, after the first dozen certificates were issued, are reported to have encouraged some exporters to return to the use of illegal channels.

4. Are there any indicators that "conflict" stones are coming through the official channels?

As of the first week of February, 2001, the GGDO twice had flagged possible stones whose origin is RUF-controlled areas, since exports restarted on October 27. This was twice out of about 22 parcels presented for certification. The GGDO valuator is an expert, said to be able to detect the origin of individual stones, as well as any world-class valuator can. The only ways to improve this detection at the point of export would be to have an additional expert (independent valuator) look at the stones and to have better monitoring of all transactions from the field to the point of export. In August 2000, the GOSL requested an independent valuator be provided by the international community. In December 2000, the GOSL approved a modification of diamond export taxes to allocate monies to pay for an independent international valuator. A Belgian firm recommended by the Diamond High Council (HRD) was contracted and, the first week in February 2001, fielded a full-time expatriate resident expert in Freetown, to perform independent valuation of all parcels presented for export to the Government Gold and Diamond Office (GGDO). OTI is providing training and some equipment to help the GOSL improve monitoring, engaging civil society and diamond-producing communities as stakeholders in monitoring.

5. If and when the RUF no longer control the diamond mining areas, what mechanisms will be employed to ensure that revenues are used for legitimate purposes and not simply revert to corrupt officials?

USAID's Office of Transition Initiatives (OTI) is implementing a comprehensive program of assistance to the Government of Sierra Leone (GOSL) on diamond policy and development. As part of this process of reform, the GOSL has made two changes to the export tax on diamonds. First, they have ear-marked funds to pay for an expatriate independent diamond valuator, as oversight to their own export valuation and to detect "conflict" diamonds that could be introduced into the clean channel of official exports, which began to operate in October 2000 under the new certification of origin regime. Second, they have ear-marked funds to be allocated to diamond-producing areas, to encourage greater involvement of communities in monitoring for conflict diamonds, and to assist with development efforts in these war-ravaged areas. USAID is providing fiscal and governance experts who are working with the GOSL, and with community representatives and NGOs, to create transparent and accountable mechanisms to manage these monies, and to monitor all diamond transactions.

SIERRA LEONE: DIAMOND POLICY AND DEVELOPMENT PROGRAM

CHRONOLOGY OF ACTIONS AND ASSISTANCE OF USAID/OTI TO APRIL 6, 2001

- Technical assistance to Lome Peace Process (April-July '99): work with civil society and the Government of Sierra Leone (GOSL) to identify and address causes of conflict, including illicit exploitation of diamonds by the rebel RUF
- Oct '99: US Secretary of State announces \$1 million of USAID/OTI assistance to the Commission for the Management of Strategic Resources, National Reconstruction and Development (CMRRD) and other peace structures
- Jan 2000: Technical Mission to Freetown to discuss CMRRD with GOSL and establish conditions for implementation. Basic pre-condition for beginning CMRRD: substantial progress on disarmament, demobilization and reintegration (DDR) and free access of GOSL and civilians to diamond-producing areas
- CMRRD Strategic Planning Exercise in Freetown, March 20-24, 2000, with diamond industry leaders and experts; De Beers proposal follows (letter of May 4, 2000, to State Department with proposals for how to identify conflict diamonds)
- Kimberley, South Africa Technical Forum on "Conflict" Diamonds, May 11-12, 2000: OTI participation with State Department
- OTI Working Paper: 05-08-00 "Proposal for a New Diamond Policy and Operations": GOSL publishes under title "Guidelines on the Mining and Marketing of Diamonds in Sierra Leone"
- Lwanda Technical Meeting: (USG not present but working group incorporates part of OTI Working Paper into Lwanda report)
- London Consultations, June 15-16, 2000: UK/FCO, Diamond High Council, Belgian Ministry of Economic Affairs, De Beers, USG
- Freetown Trilateral Mission, July 14-15, 2000: US/UK/Belgian mission
- World Diamond Congress, July 17-18, 2000, Antwerp (OTI attends as observer)
- Technical Meetings with GOSL and HRD to finalize Certification of Origin regime for Sierra Leone: Antwerp (July 18), Washington (July 27) and New York (July 28, "preview" meeting at UN with Sierra Leone, UK, US, Belgium, Israel, India)
- Technical Assistance to GOSL, with HRD, for Sanctions Committee presentation, July 2000
- UN Sanctions Committee Hearings, July 31 – August 1, 2000, technical support with US/UN Mission, New York
- Tel Aviv- World Diamond Council, inaugural meeting September 7-8, 2000, OTI attended as observer for USG
- Technical Assistance Mission to Freetown, September 11-15, continue work on Certification of Origin regime and policy development, as per September Assistance Plan
- Technical Assistance Mission to Freetown, October 23 - November 1, 2000 by Management Systems International (MSI): consultants to USAID-OTI
- Technical Assistance Mission to Freetown, December 6-15, 2000, review of start-up of certification regime; discussion of export tax revenues, banking and foreign exchange policy and other pending policy as per "Guidelines" policy document; workshops on monitoring of "conflict" diamonds, including GOSL, traditional authorities, NGOs and other civil society groups

- Technical Assistance Missions to Freetown, January 22-26 and February 5-9, 2001, workshops and policy development on monitoring, especially mechanisms for allocation of Community Development Fund (ear-mark of export taxes) and mechanisms for community participation, transparency and accountability in Fund management
- Technical Assistance Mission to Freetown, March 19-April 6, 2001, further development of monitoring, including training of GOSL Mines Monitoring Officers, development of information campaign for miners and the general public, development of support for community engagement in monitoring for “conflict” diamonds and in ear-marked export tax revenues
- 2000-2001: Participation in various academic, NGO and US Government meetings/conferences to develop understanding and advocacy on “conflict” diamonds and Sierra Leone: INR/Meridian International Center; International Peace Academy; White House Conference on Diamond Technologies; InterAction

Acronyms:

GOSL: Government of Sierra Leone

US/UN: United States Mission to the United Nations

RUF: Revolutionary United Front (Sierra Leone rebels)

HRD: Diamond High Council of Belgium

WDC: World Diamond Council

UK/FCO: United Kingdom/Foreign and Commonwealth Office

CMRRD: Commission for the Management of Strategic Resources, National Reconstruction and Development

NGO: Non-Governmental Organization

MSI: Management systems International

USAID/OTI: US Agency for International Development/Office of Transition Initiatives