



Diamond Development Initiative

DEALING FOR DEVELOPMENT?

A Study of Diamond Marketing and Pricing in Sierra Leone

FULL REPORT

March 17, 2006

**Estelle A. Levin & Lansana Gberie
March 2006**

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THE DIAMOND DEVELOPMENT INITIATIVE

DDI Mission Statement

To gather all interested parties into a process that will address, in a comprehensive way, the political, social and economic challenges facing the artisanal diamond mining sector in order to optimize the beneficial development impact of artisanal diamond mining to miners and their communities within the countries in which the diamonds are mined.

Objectives

To gather and disseminate information on artisanal diamond mining.

To promote better understanding of, and possible solutions for:

- Government regulation and mining regulation;
- Distribution and marketing channels;
- Organizational aspects of artisanal production;
- Legitimate and transparent distribution channels;
- Organization among artisanal miners;
- Free and open markets for artisanally mined diamonds.

To promote wide participation in the process, including governments, donors, industry and development organizations.

DDI Membership: the Communities and Small-Scale Mining Secretariat, the International Diamond Manufacturers Association, De Beers, the Foundation for Environmental Sustainability and Security, Global Witness, Partnership Africa Canada, the Rapaport Group of Companies.

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Glossary

<i>Banabana</i>	A Maraka word for a diamond peddler who goes to the bush to buy diamonds from miners or to facilitate miners' selling their diamond.
Coaxer	A diamond peddler who is based in a dealer's office or who brings sellers to buyers for a commission.
DDI	Diamond Development Initiative
DFID	Department for International Development, UK
Digger	A mineworker whose main task is the removal of the overburden and the extraction of the gravel
ECOWAS	Economic Community of West African States
Fullah	West African ethnic group predominantly from Guinea. Many work in diamond trading and in the import business
GDD	Gold and Diamond Department
GDO	Gold and Diamond Office
<i>Gado</i>	Illegal mining conducted by an unsupported gang of miners who share their winnings equally amongst themselves
Illegal dealer	A dealer who buys and sells diamonds without having a licence
Illegal miner	A miner who mines a plot of land without having a licence to do so.
Jewellerman	As banabana, but in Krio
KDA	Kono Dealers' Association
KPCS	Kimberley Process Certification Scheme
<i>Kongoma</i>	Diggers contract their labour on a short-term basis in exchange for a portion of the gravel. This is illegal as the diggers will not have a licence to sell that gravel.
Labourer	A person employed by the miner to do the manual labour necessary to extract the diamonds
Licence-holder	The person under whose name the licence for the artisanal mine is registered. The licence-holder may or may not be the miner who manages operations.
Licensed dealer	A dealer who operates under a licence bought from the Ministry of Mineral Resources and is supposed to buy from a licensed miner and sell to a licensed exporter
Licensed exporter	An exporter who operates under a licence bought from the Ministry of Mineral Resources and who sends/takes diamonds out of the country through the Gold and Diamond Department
Licensed miner	A miner who holds a licence for mining a certain plot of land
MMO	Mines Monitoring Officer
MMR	Ministry of Mineral Resources
Maraka	West African ethnic group predominantly from Gambia, Mali and Senegal, who work principally in diamond trading in Sierra Leone
Miner	The person who manages the mining.
Mines Manager	A person employed by the miner to manage the operations on his behalf
Mineworker	Labourers and mines managers
NDMC	National Diamond Mining Corporation
NRA	National Revenue Authority
Ñikoñiko	As banabana, but in Madingo
<i>Open-Yai</i>	The <i>Open-Yai</i> are West Africans (principally Maraka, Fullah and Mandingo) and Sierra Leoneans who act as middlemen between diggers/miners and licensed dealers. It comprises peddlers and dealers known for illegal dealing and smuggling.
<i>Overkicking</i>	A style of mining where people work individually or in pairs to wash the tailings of gravel that has already been washed.
PDA	Peace Diamond Alliance
Peddlers	Small-time diamond dealers who buy from miners and diggers and sell to other dealers
Smuggler	An exporter who illegally sends/takes diamonds out of the country
UMU	United Mineworkers Union

Dealing for Development?

A Study of Diamond Marketing and Pricing in Sierra Leone

The aim of the Diamond Development Initiative (DDI) and thus of this report is to enhance human security in artisanal diamond mining areas, contributing to making artisanal mining less conflict-prone and more beneficial to the labourers, miners, and communities, and the regions and countries in which they work.

As a result of the “conflict diamonds” problem, national and international attention has focused on the movement of diamonds from Sierra Leone into the international system, resulting in Sierra Leone’s pioneering implementation of the Certificate of Origin, closely followed by the Kimberley Process Certification Scheme (KPCS). A number of policy-oriented studies have also been done on the organisation (and rationale) of production in contemporary artisanal diamond mining, as well as on labourers’, miners’ and their households’ livelihoods.¹ By contrast, there are few studies on the marketing of diamonds within an artisanal diamond mining country.² This study aims to fill part of the gap, by focusing on the dynamics of the internal movement and trading of artisanally mined diamonds in Sierra Leone.

The specific objectives of the study were to understand what determines the prices of diamonds at each step up the largely nebulous and opaque chain of the diamond mining and trading system, how and why different cultural and ethnic groups are involved, as well as the dynamics of revenue flows within the system. The overall aim is to determine how the current structures of marketing activities may be changeable in order to ensure that diamond labourers and diamond mining communities benefit more from the millions of dollars worth of diamonds that are produced each year in Sierra Leone, by artisanal or small scale diggers. Understanding the internal trade of diamonds is also important for an appreciation of the integrity, or lack thereof, of international control systems like the Kimberley Process, and for improving global efforts to combat organized criminal activities and money laundering. The study was done with a view to expanding the research to other countries where diamonds are mined artisanally, such as Angola and the Democratic Republic of the Congo.

The research was conducted in Freetown, and principal diamond districts – Bo, Kenema and Kono – from January 19th to February 10th 2006. The research involved document analysis and semi-structured interviews with mine labourers, licensed miners, dealers, exporters, and their agents, informal dealers, representatives of Government, the Peace Diamond Alliance, international donors, and industry experts. See annex 2 for a full list of interviewees. This report also draws on research conducted from June to August 2004. The 2004 research was conducted by Estelle Levin with Helen Temple and Ansumana Babar Turay, and funded by USAID and Canada’s Social Sciences and Humanities Research Council (SSHRC). Full details can be found in Levin (2005) and Temple et al. (2005).

The report begins with an overview of the diamond industry so that the reader might understand the structural and political aspects of the industry which affect the industry’s potential to deliver benefits to mineworkers and mining communities. Consideration is then given to the financial aspects of the marketing chain, specifically looking at what affects the pricing of a diamond, and how revenue flows determine the industry’s structure, pricing procedures, and the development potential of mining areas. The report finishes with key recommendations as to how the various

stakeholders concerned with the diamond marketing chain might do things differently to help make diamonds work for development.

Part One

An Overview of the Artisanal Diamond Industry in Sierra Leone

The structure of the diamond marketing chain depends on the method of production. In Sierra Leone, diamonds are mined in four different ways: as industrial kimberlite, industrial alluvial, small-scale alluvial, and artisanal alluvial production. At present, Koidu Holdings is the only company in Sierra Leone extracting diamonds from underground kimberlite pipes. Its industrial operations in Tankoro Chiefdom (Kono District) and Tongo Fields (Kenema District) produced 116,665 carats of diamonds in 2005, valued at just over \$22.5 million by the country's Gold and Diamond Department (GDD), and comprising 15.86% of total exports by value. Koidu Holdings exports its own diamonds. Almost all other mining operations are small-scale, with the exception of Sierra Leone Diamonds Company (SLDC), which at present is involved mainly in prospecting, but which has plans for industrial alluvial mining. In 2005, six small-scale companies – Sandoh Development Corporation,³ Arcadia Mining Company, A.V. Charge, Magna Egoli Mining, EuroAfrican Impt. & Exp. Ltd., and Africa Gold & Diamond (SL) Ltd – exported 10,628 carats (\$3.1 million) directly out of the country through the GDD.⁴ By the far the most important mining operations in the country are artisanal alluvial, which is done using rudimentary tools and equipment like shovels, sieves, pick axes, and water pumps. In 2005, nearly 2,400 artisanal mining licenses were granted in Sierra Leone.⁵

TERMINOLOGY

In the report, please note the following:

1. As with customary parlance in Sierra Leone, the term "digger" is used to cover diggers, washers, and labourers unless otherwise stated.
2. The term "miner" means the manager of the mine site and not the digger.
3. In most cases the "miner" and the "license holder" are the same person. This can be taken as the normal case unless otherwise stated.
4. Miners may be men or women; it is rare for women to be labourers in formal operations or to be dealers or exporters.

The marketing chain described in this report is that which channels diamonds produced by small-scale and artisanal diamond mining companies, or other occasional diamonds as may be imported – legally or illegally – into Sierra Leone, towards the international market.

Artisanal Production

No concerted geological survey of Sierra Leone's alluvial fields has been done since P.K. Hall's exploration of the country's South-East in the 1960s.⁶ It is also impossible to get an accurate estimate of diamond production in Sierra Leone, which is something that a cadastre system now under development is attempting to address.⁷

This analysis considers how the different styles of production offer different returns to the mine labourers.⁸ Generally speaking, labourers are either employed in exchange for a wage, "support", or a share of the gravel. Depending upon the legality of the mining and the liquidity of the supporter, labourers may work for a combination of these. Most legal operations employ people in exchange for wages or support only.

Wage Labour

Wage labourers are paid cash only, either on a daily, monthly or seasonal basis. The daily wage is upwards from 5,000 Leones (US\$1.67) in artisanal operations, and Le 10-15,000 (US\$3.33 – \$5) or Le 6-7,000 (US\$2.33 – \$2.66) for skilled and unskilled labour respectively in small-scale operations. Companies which have joined the United Mineworkers Union (UMU) pay a minimum of Le 10,000 a day for unskilled labour (about Le 200,000 per month, equivalent to \$67) and Le 300-600,000 a month (\$1-200) for skilled labour such as operators, welders and mechanics.⁹

In Kono District, and to a certain extent in Bo, contract labour is increasingly common as the government grants more and more small-scale and industrial alluvial mining leases. Wage labour is preferred by labourers who, having previously mined for a share of the profits (the tributor system) and having received minimal gains, prefer the security of a regular wage. This shift towards wage labour may also be indicative of local sentiment on productivity as people assess the likely returns and decide that they're better off accepting a daily wage.

The Tributor System (formal support)

Artisanal mining is dominated by the tributor system, in which supporters give miners what they need to extract diamonds (basic tools and equipment); they also buy the mining licence and provide the labourers rice and some cash for their daily subsistence. This daily cash payment varies between Le 500 and Le 5,000 per day. Labourers might also be supported with health costs, accommodation, and transport, and sometimes even their funeral expenses (standard for divers), children's education and family welfare. Supporters also provide perks, such as cigarettes or kola nuts, or marijuana in illegal operations.

The Tributor System

1. Prior to beginning work, the parties agree on the percentage share of the profits. Whatever quality of diamonds they find, they split the winnings according to this percentage. This is the standard arrangement between the licensed miner and his/her financier. The license-holder's usual allocation is 30-40% of the profits of the sale; the supporter gets 60-70%. Sometimes, though rarely, the labourers are allocated a percentage of the profits and the split is 40% (supporter), 30% (license-holder), and 30% (shared between up to 50 workers).
2. The licensed miner or his mines manager negotiates to "buy" the diamond from the labourers. The miner tends to have superior knowledge, and so is able to push down the labourers' price, especially if the stone is a special or uncommonly large (e.g. over five carats). If winnings have been scarce and the supporter is badly in deficit, then the labourers are likely to get nothing for small finds, encouraging some to steal. According to one miner, this system of post-negotiated pricing is the best way to "really satisfy the diggers."¹⁰ Licence-holders also prefer this system as labourers are less likely to steal if they believe they can benefit from the diamond *and* still keep their job.¹¹
3. The labourers then split their portion among themselves, either equally or according to the gang leader's judgement of what people deserve on the basis of their productivity (effort and skill), age or position in the gang's hierarchy. Sometimes the winnings are allocated differently according to the value of the gem: equally when the gem is of low value, and unequally when it is of high value with the gang leader taking a larger share.¹²

This system rarely benefits the labourers unless they find a large stone, the stone is not then stolen, and the gang leader is experienced enough to argue for a realistic price from the licence-holder. This system works on the premise that labourers prefer to receive minimal daily support and the chance of a greater share of the findings than to receive maximal daily support and a small bonus, based on a percentage share of any findings. The move towards wage labour indicates that some labourers would accept terms currently proposed by DFID, in partnership with the United Mineworkers Union, for artisanal mine workers to receive an acceptable (highest possible) minimum wage and level of support, along with a nominal bonus. The bonus would discourage labourers from stealing, whilst the assurance of an optimal wage and support would enable them to build greater household resiliency.

The Bucket or Pile System

Where the miner has no liquidity, he may use the pile or bucket system to mine his land. Even the purchase of tools and rental of equipment can be covered by allocating gravel to the respective owners (though this is illegal). In the pile system, prior to beginning work, the parties agree on their respective proportions of the gravel. Generally, half the gravel is washed for the land-owner, and the remainder is washed and shared among the labourers. Labourers are only entitled to a share of the diamonds found in their own pile. The bucket system is practically identical. Instead of paying labourers in one big pile, the labourers are divided into teams of maybe four. Each team receives a bucket of extracted gravel to wash for the land-owner and a bucket to wash for itself. If the team finds any diamonds in their bucket, it gets to keep the winnings in their entirety. In this system the gamble is even greater for the labourers, but the winnings – if found – are shared amongst fewer people

The bucket and pile systems are common styles of production in unsupported illegal operations. The pile system was the preferred system during the war. It may also occur when a licence-holder does not have enough capital to mine his entire lease. He may then sublet a portion of his licensed land in exchange for a portion of the tenant's gravel rather than a share of the profits,¹³ or he may bargain to persuade his labourers to accept gravel instead of support for a portion of the work. The pile and bucket systems are also used to contract short-term or occasional labour when the supporter is not liquid. This is the *kongoma* system.

In theory, the supporter should get nothing for diamonds produced from the labourers' own share of the gravel in the *kongoma*, pile or bucket systems. In legal operations, however, the labourers can sell the diamonds they find either directly to the licensed miner or else to a licensed dealer, using the miner's licence.¹⁴ In the latter case, they provide the licensed miner with a tip or commission. Whilst this is not entirely in line with the legal interpretation of production and diamond ownership – the licence-holder is supposed to be the first owner of the diamond – it does ensure that diamonds enter the legal marketing chain and that production in licensed areas can continue even when liquidity is poor.¹⁵ Of course, should the lucky labourers decide to take their diamonds elsewhere, say to a peddler or dealer who has provided them with rice in the past, theoretically they can do so. In practice this depends on the social capital and status of the licence-holder, who could use the Law and his contacts in the authorities to lay claim to the diamond.

The bucket, pile and kongoma systems therefore only benefit labourers when they find a diamond in their own pile, and when they themselves or someone they trust has enough expertise to negotiate an acceptable price with whomever they sell to. If they sell to the licence-holder, they are likely to receive less than they should on the understanding that the stone legally belongs to the licence-holder anyway, and because he will want to make his own profit when he takes it to a dealer. If they sell to a licensed dealer or his agent they are likely to receive less because dealers are more

experienced in negotiation and pricing. If they sell to a diamond peddler without the licence-holder knowing, they are likely to receive less than they should because people pay less for stolen stones.

Gado and Overkicking

People mining illegally may have operations run on a similar scale to licensed mining, and in these cases may give labourers full support or wages, but this is less common these days as large operations are easier targets for Mines Monitoring Officers (MMOs). Other illegal miners are often those people who do not have (or are presumed not to have) the skills deemed necessary for employment in a formal gang, or who prefer to mine illegally.¹⁶ These miners do “*gado*” or “overkicking”. *Gado* is illegal mining conducted by an unsupported gang of diggers who share their winnings equally amongst themselves. They usually illegally mine deposits close to the surface, but may also do occasional wage labour – either *kongoma* or *jagaja*. Overkicking is a common type of mining conducted by people individually or in pairs. Overkickers wash the tailings of gravel that has already been washed, either on legal mining plots to ensure that nothing is overlooked, or illegally wherever gravel is easily accessed. It is pursued seasonally by workers who are without work in the wet season, as well as by some of the most vulnerable who cannot find employment in a gang – for example the elderly, the sick, women, and children. *Gado* gangs and overkickers may receive occasional support from people interested in their diamonds, usually Maraka, Fullah or Madingo dealers, and generally sell their diamonds to people in the *Open-Yai* (see below). They may also sell their diamonds to or through a licence-holder (thus making the diamond legal). Experienced illegal miners might go directly to legal dealers or their agents. It is clear that the range of expertise amongst people who do *gado* and overkicking is large. These activities are pursued by the most vulnerable and the most secure.¹⁷ On this basis, returns to this group will be determined more by their expertise and social capital than by the fact that they do this style of mining.

Cooperative Mining

USAID’s Integrated Diamond Management Program (IDMP) has been developing a model of cooperative mining. Direct financing and lending by an international buyer, and the fixing of prices to 10% below the Antwerp market price, guarantee cooperatives a higher price for their diamonds. It aims to bypass the intermediate dealer layer, where most of the profit is made, and removes the need for price negotiation.¹⁸ The scheme was first implemented in 2005 with five cooperatives mining an acre each. Of \$50,000 invested, however, only \$7,000 worth of diamonds was actually recovered. Reasons given include:¹⁹

1. too few mining sites were mined to spread the financier’s risk sufficiently;
2. mining in 2005 was expensive, owing to a lot of rain at the beginning of the year;
3. the allocated land was not very productive or was comparatively expensive to mine;
4. the land was not properly prospected in advance of digging;
5. either the cooperative members did not sufficiently comprehend that the money was actually a *loan*, or the PDA did not find a way to guarantee the security of the loan;²⁰ and
6. alleged malpractice by one or some of the employees of the Peace Diamond Alliance and executive members of the cooperatives in terms of:
 - manipulation of the awarding of certificates to cooperatives with whom PDA employees had relationships;
 - lack of transparency in financial management by the cooperatives’ executive members;
 - diversion of the financier’s money to these peoples’ personal livelihood needs;
 - interruption of the work as unpaid and underpaid workers abandoned their duties;
 - theft of diamonds produced from the sites by workers who remained there.

These reasons for failure should ultimately be avoidable Diamond mining cooperatives and the IDMP remain potentially useful models for improving the potential for artisanal diamond mining. A failed year does not necessarily mean a failed model.

Supporting

In the early days of diamond mining in Sierra Leone, there were plenty of diamondiferous gravels close enough to the surface to be extracted with minimal investment. By the early 1960s, however, miners had to remove greater volumes of overburden to access diamond-bearing soil. This increased the costs of production. Cash-strapped miners turned to buyers and local businessmen for financial support, giving birth to the supporter system.²¹

Supporters are necessary for the same reasons today, and increasingly so in the traditional mining areas of Kono District, where the majority of the remaining payable grounds – based on local judgement – require deep pit mining. By local standards, financing mining operations is excessively expensive for the ordinary miner (see below). Financial institutions approached during the course of this study cited lack of collateral and the absence of reporting which might help ascertain risk as a reason for their lack of interest in the sector. They believe that miners and labourers would not be responsible borrowers.²²

All established dealers and their agents, legal and illegal, and most exporters and their agents support mining.²³ Most supporters are themselves financed by bigger, wealthier dealers or exporters. There could be three or more layers of supporters, all of whom expect to make a profit. Needless to say, this severely affects the prices that the digger – at the bottom of the chain – eventually gets for his winnings.

Case Study: Layered Supporting and Diggers' Due

Foday Moiwai supports 30 diggers in Lower Bambara, Tongo. He is himself supported by a Lebanese trader, but he also works as “Secretary” to an indigenous diamond dealer in Kenema, Benson Kemoh. Mr. Kemoh is chairman of the African Dealers Association in Kenema.²⁴ As “Secretary” Mr. Moiwai solicits miners with diamonds to sell to Mr. Kemoh, who in turn pays Mr. Moiwai 15 per cent of the profit from each diamond he buys in this way. Out of this 15%, as well as from funding he gets from a Lebanese man, Mr. Moiwai supports his diggers. He spends Le 3000 (about a dollar) a day on each digger (equivalent to Le 90,000 for 30 diggers a day). When a digger is sick, Mr. Moiwai pays for his treatment. When a diamond is found, Mr. Moiwai pays the diggers one-third of the price that his Lebanese supporter would give him.

The digger who wants more finds himself with two options: attempt to steal any diamonds he finds, or abandon diamond mining altogether. But a digger who steals is likely to gain a little more than he would if he had sold to his supporter, he is also unlikely to realize even marginally the actual price of the stolen diamond. In the first place, his knowledge of the value of diamonds is limited; it is conditioned by the predatory prices paid by his supporter. And because he is in a rush to sell for fear of being apprehended, the potential buyer is likely to see this and exploit it.²⁵

In the supporter system, the miner receives assistance from a financier to conduct his mining. Labourers only receive support formally when working in a licensed site and when this support comes from the licensed miner or his financier. Labourers working on licensed land might also

receive occasional support from dealers and diamond peddlers who wish to encourage them to bring stolen diamonds to them. Otherwise, labourers only seek support for their mining operations if they are mining illegally, doing *gado* or overkicking, for example

There are many different types of supporter-client relationships in the artisanal mining industry. Support may be formal or informal, substantial or piecemeal, occasional or regular. It may exist between diggers and a financier, miners and a financier, or between diggers themselves. It also exists within the marketing chain, between dealers and their agents, exporters and dealers, and exporters and their agents. Broadly speaking these diverse styles of support fit into two categories: one based on a formal system of capital provision, and the other based on the customary system of patronage and relief.

Formal Support – Capital Provision

Supporters sometimes enter into formal arrangements with miners with the conditions of their agreement written, witnessed, signed and lodged with the Ministry of Mines. The United Mineworkers Union (UMU) has developed a memorandum of understanding which some supporters and their workers are signing, before lodging it with the Union (see Figure One).

The UMU places three conditions on this process: that the supporter and workers are registered members of the union, that the supporter has proven sufficient capital to complete the work, and that the plot is registered at the cadastre. The supporter pays registration fees of 1000 Leones (US\$0.33) for him/herself and 500 Leones (US\$0.17) per digger. The costs are low in order to encourage people to enter into these formal contracts. The UMU has 145 licence-holders registered in this way so far.

Formal support is usually substantial, and is intended to cover all mining-related expenses, although the supporter may also offer the client relief whenever s/he requires it. The agreement is entered into at the start of the mining season (usually September or January), usually prior to getting the licence. When deciding whom to support, financiers are most mindful of the productivity of the land and the calibre of the miner in terms of his trustworthiness and skill. The miner's financial acumen is not an issue. The support is *not* a loan but is rather a direct investment; the supporter bears the financial risk entirely. The miner brings expertise and the supporter brings capital, and it is on this basis that they go into business. The miner is not expected to do anything but mine well and bring all diamonds found to the supporter. This understanding – and the freedom with which supported miners often break their responsibility to their supporter – challenges the characterisation of the supporter-client relationship as one of exploitation and debt bondage.²⁶

This system of formal support is used by licensed dealers – mostly Lebanese and foreign nationals – to support licensed miners and their workers. It is a business arrangement. It may last for many years or for just a month. One miner explained it this way:

“He does all the logistics of the work, all the financing, and then after all the exercise, we go and sit down in his office and he’ll bring out the document of his expenditure, and he will calculate his expenditure and my manager will produce his own document and they will do a comparison. After that we come to business. After the business he will tell me that this diamond is so-so-so-so-so, and out of that we will divide it between us. He will get his own 60% and I will take my own 40 %. He’ll remove the expenditure before we go into the share. This means that if the diamond cost one million Leones and if you have spent two hundred thousand Leones on expenditures,

you should deduct the amount spent and go into proportional share with the 800,000 left by 60% – 40% shares.”²⁷

Fig. 1: UMU Memo of Understanding Between a Financier and His Workers

MEMORANDUM OF UNDERSTANDING (MOU)

This serves as the MOU between the management of **KAWAMA MINERS ASSOCIATION (KMA)** herein referred to as supporter and the under mentioned herein referred to as workers:-

No	Name	Position	Signature
1	ATAH MANGA	MANAGER	<i>A. Munga</i>
2	TITUS S. JAMES	Manager	<i>T. James</i>
3	TAMBA KOMBAY	MINER	<i>T. Komba</i>
4	ISMAEL DULURAY	"	<i>I. Duluray</i>
5	SHELU MANSALAY	"	<i>S. Mansalay</i>
6	TAMBA SUNDU	"	<i>T. Sundu</i>
7	KAIKAI BANGALIE	"	<i>K. Bangalie</i>
8	BOBSON SESAY	"	<i>B. Sesay</i>
9	MORRAY VENGALHUN	"	<i>M. Vengalhun</i>
10	SARK MATTIA	"	<i>S. Mattia</i>
11	JOSEPA KOMBA	"	<i>J. Komba</i>
12	SAMU KOROMA	"	<i>S. Koroma</i>
13	SAAFER FANDAY	"	<i>S. Fanday</i>
14	ALEX-A. FANDAY	"	<i>A. Fanday</i>
15	ATAH MANSALAY	"	<i>A. Mansalay</i>

That the supporter shall do the following:-

- ❖ Acquire license(s)/sites for mining operations.
- ❖ Make all relevant operations legal.
- ❖ Provide all mining tools and equipment.
- ❖ Pay feeding (all inclusive) at Le 5,000 per day, per labourer/worker.
- ❖ Meet all medical requirements of workers.
- ❖ Give 40% of mutually valued proceeds to workers.

The workers.

- ❖ Go to the operation site(s) on time.
- ❖ Work according to mutually agreed work scheduled.
- ❖ Take care of mining tools and equipments.
- ❖ Submit medical bills with receipts as and when necessary.
- ❖ Take adequate care of proceeds
- ❖ Prepare and submit technical and financial reports.

On behalf of Management

A. Munga
Tamba Manga

Witnesses

1. *Sahr Simelun*
Signature

2. *Rebecca Komeh*
Signature

If the miner has not kept a careful tab of expenditures, and if he does not have the skills to value the diamond, the supporter can argue that the cost of the operations exceeded the value of the diamond and give him nothing. This is a common strategy for cheating miners and diggers out of their share. The same miner explains how this happened with his previous supporter:

*“Last year I got diamonds but I was cheated. The financier told me that all his expenditure was twenty six million Leones and then all the winnings cost twenty two million Leones, so I took him to the Mines Office. The Mines engineer interfered in the issue. Later on he paid my money. From there the agreement was over”.*²⁸

It does happen (and increasingly so) that mining expenditures will exceed the value of the diamonds extracted at a particular time (bearing in mind that washing usually takes place two to three months after operations have begun). In this case, the miner will be more inclined to cheat the supporter and take the stones to someone else for sale. In some operations, the supporter’s mines manager washes the gravel as it is extracted, in order to try to get diamonds as soon as possible. If the diamonds come earlier, the miner is more likely to take them to the supporter, because the expenditure is relatively low, and because it can be taken as a sign that more diamonds will come.

Informal, Committed Support

Similar supporting arrangements can be entered into for mining operations, but without the formality of a written agreement. This is the most common style of informal but committed support given by Sierra Leonean and other West African dealers, many of whom are illiterate. The regularity and frequency of this support depends on the supporter’s liquidity or the client’s needs. These relationships are based on trust and goodwill or a pre-established sense of reciprocity – for example, amongst family members.²⁹ In illegal operations, a miner may provide this type of support to the gang, using proceeds from his or his family’s other business activities.

Informal Support – Tipping and Relief

Informal support is irregular and without commitment. It occurs mostly between illegal miners, diggers and overkickers, and legal Maraka or Fullah dealers, small-time illegal dealers and diamond peddlers, or local patrons. Lebanese and Sierra Leonean dealers sometimes offer relief in this manner, but local people believe that a Maraka is more likely to give this type of support. Although the obligation is small on either side, there is still some expectation that recipients will bring their winnings to the supporter. Since the commitment is weak, it is common for diggers and miners to seek support from more than one person. This lack of structure and obligation can lead to conflict, but it also gives the person with the diamond greater freedom and more options when selling.

The miners and diggers, as well as mendicants posing as diggers, “...work the dealers. They go from one to the next: ‘Oh, master, I no get. Please help.’ So you do, and then they go to the next dealer and do the same.”³⁰ Yet it is in the dealer’s interests to give occasional support. It promotes the impression that he has ready cash and would therefore be able to buy quickly, should someone come with a valuable stone. It also buys free advertising through word of mouth. People sell to dealers they know give occasional support so that if they hit hard times, they can go back to that person and seek relief. This style of peppering support around is actually more productive than the more capital-intensive formal support, which many dealers say loses them a lot of money.

Dealers and exporters also “tip” clients who come with diamonds, to create the impression of generosity. It is not uncommon for dealers to sweeten the deal with a mobile telephone, watches, cosmetics, clothes, or even a car, if he has made enough money on the diamond.³¹ A Maraka dealer,

new to the diamond business in Sierra Leone, claimed he had handed out \$5-6,000 to all the chiefs in Kono when he first came to town. He believes this is one reason some chiefs bring their diamonds to him. An exporter estimated that the cost of these “tips” amounted to \$10-15,000 per year for him.

The Cost of Support

Dealers and exporters are quick to emphasise the risks of supporting and how they lose more than they win. One exporter was rumoured to have lost Le 700 million (equivalent to \$233,000) on his supporting ventures in 2005. One dealer claimed he spends over \$100,000 a month supporting 60-70 mining licences around the country. This is equivalent to about \$1540 a month (presuming 65 licences). Such a massive expenditure is, of course, a gamble. He estimated that 60% of his licences fail, 30% break even, and 10% are profitable. Despite the claims of how much they lose, or how low their profit margin, it is unlikely that many would remain in the business if it was as bad as they make out.

One of Sierra Leone’s largest exporters, Kassim Basma, supports over 50 artisanal licences in addition to his small-scale mining company, “K B Mining”, which mines 10 acres. He pays for the licence fees, fuel, machinery and tools. He says he spends Le 2500 (less than \$1) per day on each worker, and employs about 20 to 30 workers per plot. This is equivalent to \$750 per acre per month. His total monthly expenditure on his workers only would therefore be at least \$37,500.³²

Another firm, operated by two brothers, employs ten men and claims to spend 750,000 leones every two weeks on “support” (presumably including all costs). This is equivalent to \$543 per month. Licence-holders are allowed to employ 50 labourers on their plot. If we take 30 men as the average, then using the level of support described here as typical, the average monthly cost of support would be \$1629, or \$16,290 per annum, based on a ten month mining season.³³

Sahr Meusa Kassegbama is a dealer’s agent. He sells his diamonds to Prince Saquee. Both are Konos. Since early 2005, Kassegbama has spent 50 million leones mining two acres (= \$8,500 per acre). He says he made a big loss. He employs miners on a contract basis for 6,000 Leones per day.

Using these four examples, it is clear that the typical cost for mining one acre is about \$1500 per month, if one includes equipment and licensing costs. Presuming a year’s mining consists of two seasons of five months, then annual costs of support for one acre is \$15,000. According to Jonathan Sharkah, the chief Mines Engineer in Kono, however, the minimum investment is now \$25,000 per acre. In 2005, about 2400 mining sites were licensed for artisanal mining. If we take the average cost per acre at a more conservative \$20,000, and given that licences can cover up to five acres, then the total expenditure on *licensed* mining alone in 2005 was about \$12m, presuming an average acreage of 2.5 acres. In relative terms this is a very small investment for an export value of \$116 million.

The Logic of Formal Support

Dealers, exporters and their agents say that they support in order to obligate miners to bring their diamonds to them for sale. However, there is no guarantee that people *will* be loyal to their supporter, unless they can be made to do so through formal arrangements enforceable through the law. In fact, it is more likely that they will be disloyal. One wonders then why dealers invest thousands of dollars in formal support if a.) their miners are unlikely to bring their winnings to them, and b.) they are likely to lose money from it.

Table 1: Cost of Support: Mining Equipment and Labour Costs in 2004³⁴

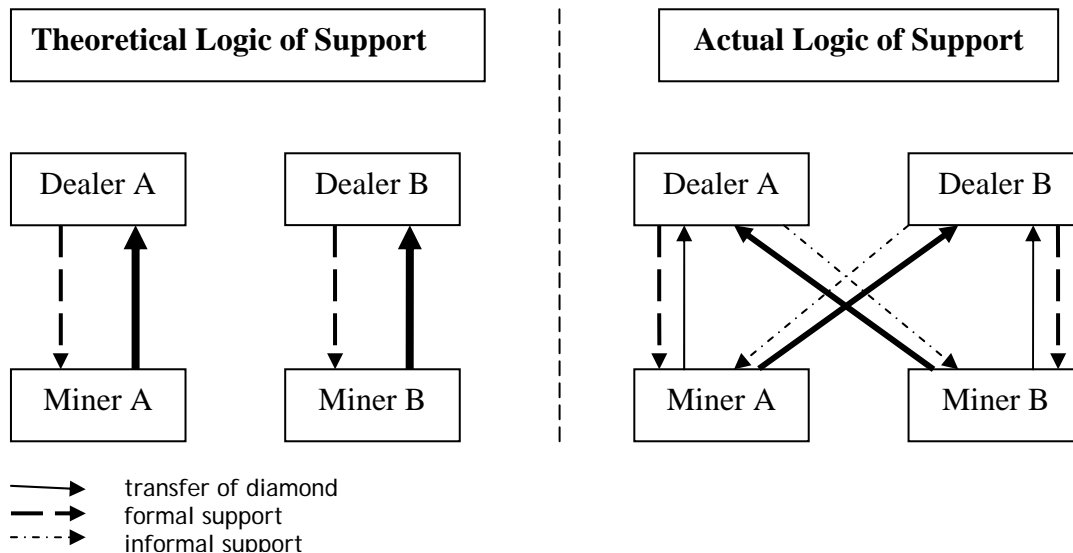
What	Notes	Cost/day (dry season)	Cost/day (wet season)	Fuel quantity (gallons)	Fuel cost (Le)	Total cost (dry) (\$/day)	Total cost (wet) (\$/day)	days/yr (min. depth)	Days/yr (max. depth)	Total (\$/annum) Min	Total (\$/annum) Max.	Pay off
D8 Bulldozer	8a.m. - 6 p.m. presumed 5' to 30' depth	\$1,500	\$1,500	50	Le 425,000	\$1,660.38	\$1,660.38	3	14	\$4,981.13	\$23,245.28	Frequently
D6 Bulldozer	8a.m. - 6 p.m. presumed 5' to 30' depth	\$1,200	\$1,200	50	Le 425,000	\$1,360.38	\$1,360.38	4	21	\$5,441.51	\$28,567.92	Frequently
Excavator	presumed 3' - 10' depth range	\$1,000 ³⁵	\$1,000	45	Le 382,500	\$1,144.34	\$1,144.34	7	14	\$8,010.38	\$16,020.75	Sometimes
Digger	Cost of labour	Le 7,000	Le 7,000	0	0	\$2.64	\$2.64	244	244	\$644.16	\$644.16	Always
Shovel*	Replacement rate 1 every 2 months	Le 14,500 to buy	Le 14,500 to buy	0	0	\$0.08	\$0.08	122	122	\$10.18	\$10.18	n/a
3" Robin Petrol water pump	may be paid for by giving a 1/6 share of the gravel	Le 10,000	Le 10,000	10	Le 90,000	\$37.74	\$37.74	122	122	\$4,603.77	\$4,603.77	Always
4" Lister	diesel water pump	Le 60,000	Le 100,000	10	Le 85,000	\$54.72	\$69.81	122	122	\$6,675.47	\$8,516.98	Always
6" Lister	diesel water pump	Le 100,000	Le 150,000	10	Le 85,000	\$69.81	\$88.68	122	122	\$8,516.98	\$10,818.87	Always
8" Lister	diesel water pump	Le 200,000	Le 250,000	15	Le 127,500	\$123.58	\$142.45	122	122	\$15,077.36	\$17,379.25	Always
The Plant	uses 3" Robin + commotor	Le 100,000	Le 100,000	10	Le 87,500	\$70.75	\$70.75	30	60	\$2,122.64	\$4,245.28	Always
The Rocker	Uses 3" Robin, equivalent to 8 men shaking /day	Le 30,000	Le 30,000	5	Le 45,000	\$28.30	\$28.30	75	150	\$2,122.64	\$4,245.28	Always
Shaker*	Replace every 2 weeks	Le 5,000 to buy	Le 5,000 to buy	0	0	\$0.14	\$0.14	122	122	\$16.44	\$16.44	n/a
Washer	Cost of labour	Le 7,000	Le 7,000	0	0	\$2.64	\$2.64	244	244	\$644.16	\$644.16	Always

* Shaker and shovel costs based on interviews, presumed washing season of 4 months a year and presumed digging season of 4 months a year

Dealers support miners in order to reinforce the very system of support itself. Without support, fewer diamonds would be mined artisanally, and with fewer diamonds there would be less dealing. It is in a dealer's interest to support as long as other people are doing it, because other supporters' stolen diamonds will come to you, just as yours will go to them (see Figure Two). One exporter also admitted that support is less about promoting returns than it is about promoting yourself amongst the miners.³⁶ It is the incidental handouts, gifts or tips distributed by dealers that motivate miners to bring diamonds to them, rather than the formal support of mining operations.

Of course supporters do also endeavour to capture as many of the diamonds as possible from their formal operations. They make a point of working with miners they trust and they send their own mines managers, "watchers" and security guards to the site. Some go so far as to use washing plants only to minimise opportunities for theft. But theft remains common and the economic viability of ground is far from certain.

Fig. 2: Theoretical vs. Actual Logic of Formal Support



Registration of Support

Since February 2005, the Ministry of Mines has made it a legal requirement that supporters register with them for a fee of Le 50,000 per licensed acre, per annum (equivalent to US\$17).³⁷ Registration of supporters will be extremely important for the cadastre system, which will be keeping records of the value and volume of diamond extraction through the marketing chain, among other things. It will also help protect the supporter's legal right to a share of the proceeds of a diamond sale, should diamonds from their licensed plot be sold elsewhere. In the same vein, official information on supporters would help MMOs where they are forced to intervene to prevent conflict over diamonds found in mines where there is more than one supporter – as is quite common.

At the Ministry of Mineral Resources (MMR) in Freetown, the Assistant Director of Mines was not aware of this registration process during a visit by the Study Team, and insisted it should not be necessary given that all supporters are already licensed dealers, exporters, or their agents. In a prior interview a more senior official said that the registration of supporters had not yet been implemented.³⁸ And yet seven, eleven and fifteen supporters were registered with the Ministry's provincial divisions in Kono, Bo and Kenema Districts respectively, demonstrating that the local authorities were proceeding with the registration. With more than 2,000 mining licenses extant, however, they had a long way to go.

The registration of supporters will be a challenge because, firstly, there is a general lack of communication within the Ministry and a seeming absence of political will to pursue the matter; secondly, the diamond industry is very secretive and people are not keen to have their business known; thirdly, the Ministry regards it as a discretionary fee;³⁹ fourthly, it is not clear what *level* of support is deemed subject to registration; and lastly, the MMR, Police and Dealers' Associations already intervene in disputes for a small fee, either as mediators or law enforcers.

Marketing

The standard alluvial diamond marketing chain, as promoted by the Law, is schematised in Figure Three, below.⁴⁰

Licensed miners are entitled to sell to four different categories of buyer: the dealer, the dealer's agent, the exporter, or the exporter's agent. Dealers can only sell to an exporter's agent or an exporter. Agents mostly sell to the person under whose dealing or exporting licence they have their certification as an agent, although they are allowed to sell to the next official buyer (e.g. dealer's agent to exporter; exporter's agent to overseas buyer) either on behalf of their licensee or independently. The simplest chain is when a self-financed, licensed miner sells directly to an exporter. The most complex chain should be from miner to dealer's agent to dealer to exporter's agent to exporter. Theoretically speaking, the more people who buy or facilitate the buying of the diamond as it progresses to the point of export, the less profit is available at each step of the chain. Seemingly, then, the simplest chain is also the most ideal for ensuring that the miner receives more for his diamond. In practice, however, it provides the exporter with an opportunity to make a greater profit as he is buying from someone with inferior pricing skills.

The chain is actually more complicated than the one depicted in Figure Three; there are other actors involved, most significantly the dealers' and agents' coaxers and the illegal miners, dealers and exporters (smugglers). There are multiple passages a diamond might go through, including between actors in the same layer (i.e. dealer to dealer), although this particular activity is illegal. Some actors will have multiple roles (e.g. a dealer may also be a financier, a licence-holder may do his own mine management, a licence-holder may be self-supported, etc.).

Fig. 3: The Artisanal Diamond Supply Chain, in Theory

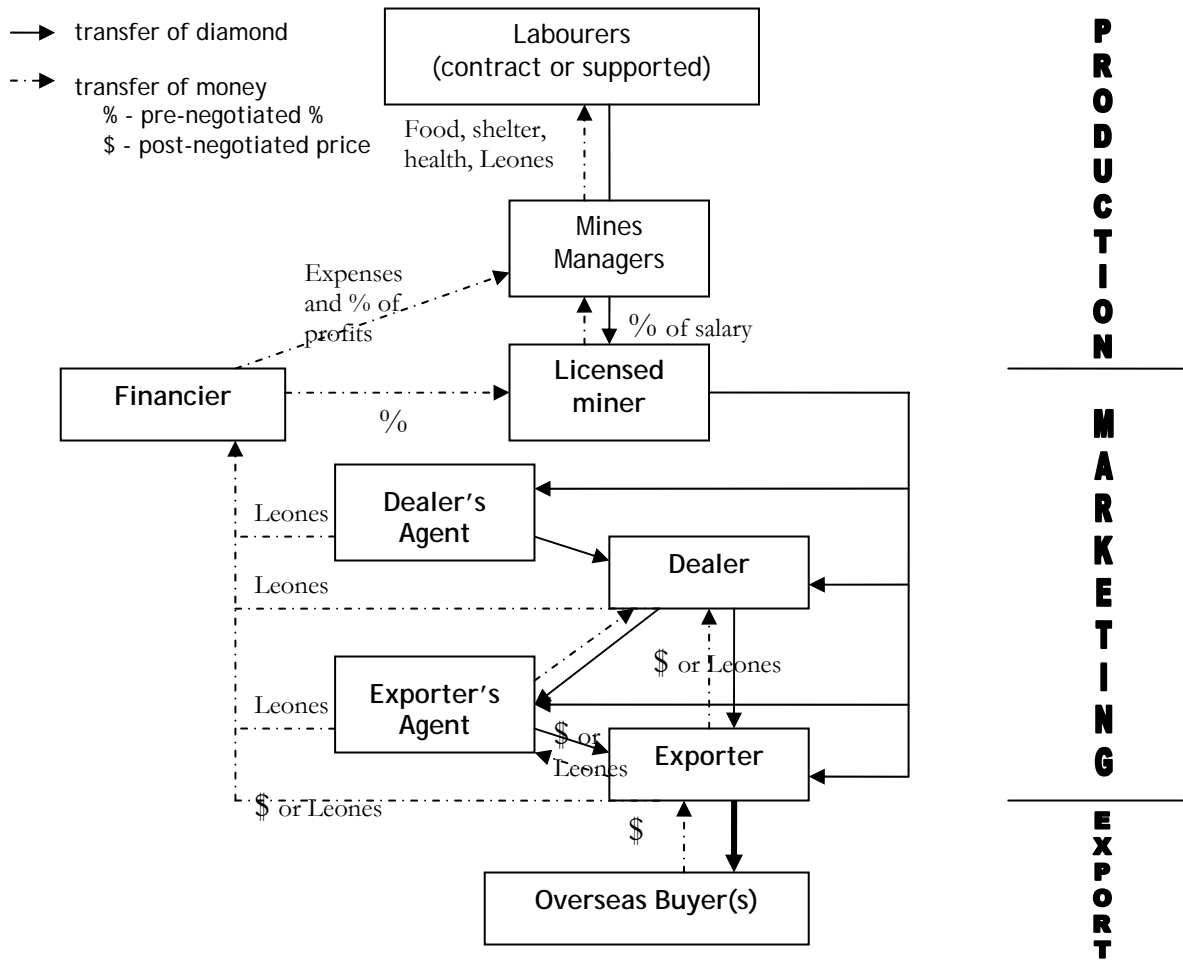
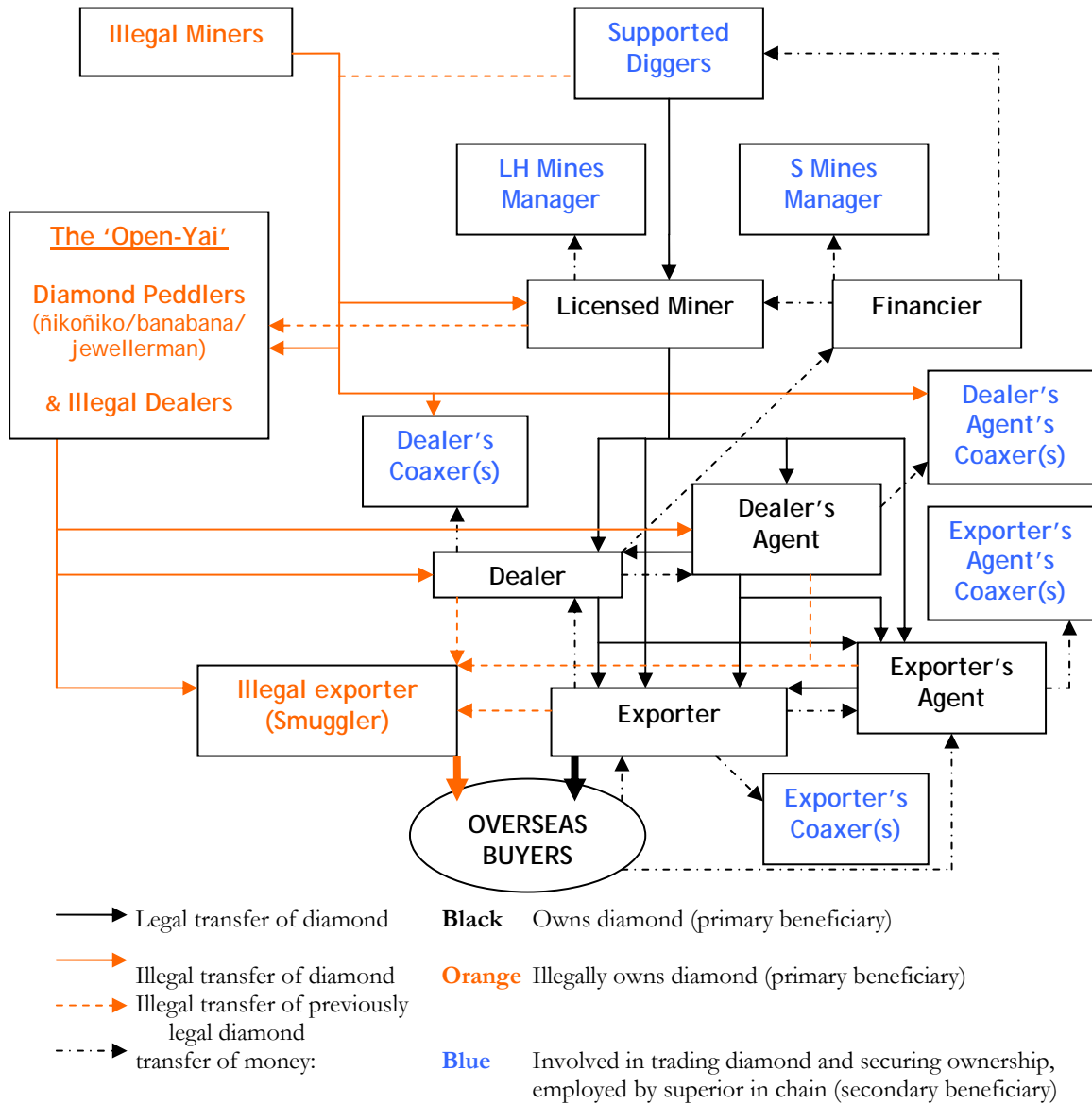


Fig. 4: The Artisanal Diamond Chain, in practice



Common illegal marketing activities include anyone, licensed or not, selling to a diamond peddler or illegal dealer; any unlicensed miner selling to anyone, licensed or otherwise; diggers selling stolen diamonds to licensed dealers or their agents; licensed dealers selling to licensed dealers; smuggling. Other illegal marketing activities not shown in Figure Three are diamond laundering and money laundering (see below). Licensed dealers and exporters acknowledge that Guinean and Liberian diamonds cross their desks on a monthly basis (though they deny buying them).⁴¹ One interviewee for this study claimed that even diamonds mined outside Africa were coming into Sierra Leone. Sierra Leonean diamonds are some of the finest in the world. They sell at a premium because they generally polish up one colour better than one might classify them when rough. Diamonds or parcels which people paid too much for will sometimes be brought to Sierra Leone to be mixed into parcels of Sierra Leonean gems in order to benefit from this premium.⁴²

The number of exchanges before a rough diamond leaves Sierra Leone, therefore, depends upon the intention and requirements of the owner -- whether it be to make money, to launder money, or to use the diamond as currency in exchange for some other useful product or service. The least number of steps is none, whereby a digger or miner smuggles out his own diamond before selling it. It is impossible to ascertain the maximum possible number of exchanges, but it is certainly feasible for a diamond to pass through the hands of ten people in Sierra Leone before reaching the international market.

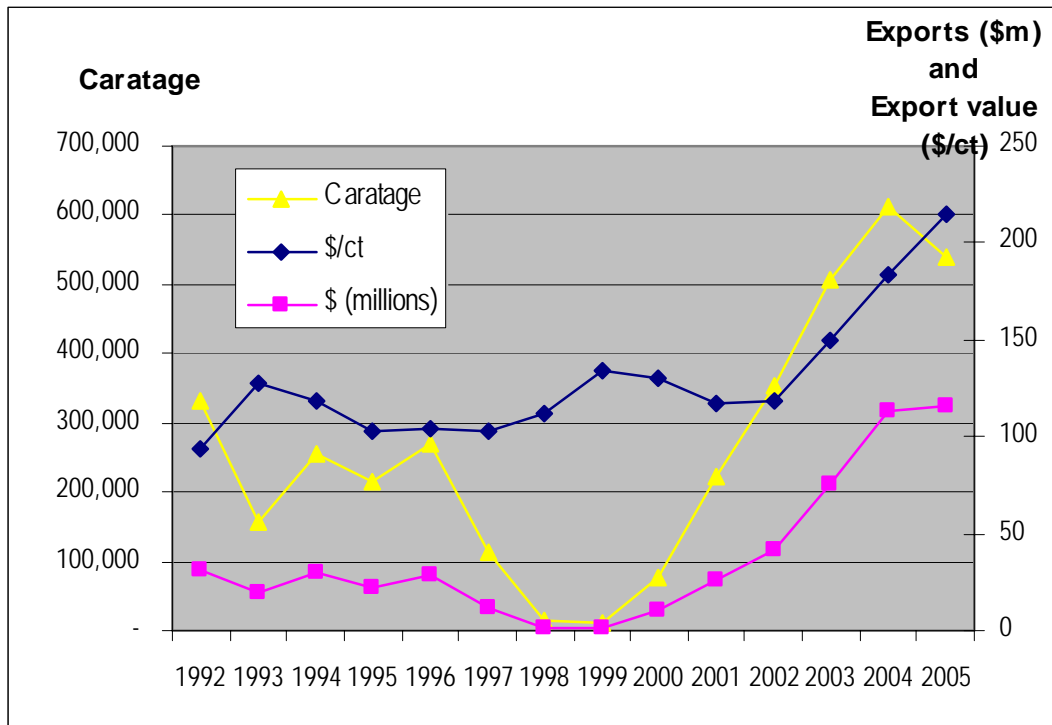
Diamond dealers and exporters are businesspeople, first and foremost. They admit a willingness to do business with anybody, although some are quick to add that they only operate legally. Traditionally, the majority of people involved in Sierra Leone's marketing chain maximise their profits and minimise their risks by working between the formal and informal markets. Illegal activities became the norm from the 1970s until the end of the Civil War, owing to the collapse of the formal state. This legal straddling continues today. It is widely alleged that licensed dealers and exporters buy and sell legally the smaller, less valuable stones, and smuggle out the larger or more special stones. The introduction of the Kimberley Process Certification Scheme (KPCS) has made these activities more difficult, however, as the consistent increases in the average value per carat of diamonds being exported from Sierra Leone indicates that a greater proportion of valuable stones is now moving through legal channels.

Table 2: Legal Artisanal Diamond Exports 1992 to 2005⁴³

YEARS	CARATAGE	VALUE \$	P/CT	CERTIFICATION
1992	331,800.11	31,290,012.91	94	NO CERTIFICATION SCHEME
1993	157,996.58	20,167,283.83	128	
1994	255,107.88	30,196,365.42	118	
1995	213,775.91	22,002,272.49	103	
1996	270,452.32	28,307,188.73	105	
1997	114,438.84	11,802,844.78	103	
1998	15,818.04	1,780,337.41	113	
1999	9,320.00	1,244,825.34	134	
2000	77,372.39	10,066,920.81	130	
2001	222,519.83	26,022,492.27	117	
2002	351,859.23	41,732,130.30	119	
2003	506,723.37	75,969,753.32	150	KP CERTIFICATION SCHEME
2004*	612,499.53	112,654,805.55	184	
2005*	540,731.52	116,183,451.12	215	

* Excludes small-scale mining company exports

Fig. 5: Legal Artisanal Diamond Exports 1992 to 2005



The Open-Yai: Diamond Peddlers and Illegal Dealers

The *Open-Yai* is an informal group of people with knowledge of diamond prices who live mostly in the bigger towns, and who act as middlemen between diggers/miners and dealers. “*Open-Yai*” is a condition of being, of general astuteness and awareness to the goings on in the diamond business. Members are most renowned for their illegal activities in diamond marketing and exporting, but have a high view of their role. The *Open-Yai* comprises Sierra Leoneans and other West Africans. The principle ethnic groups involved in Kono are the Marakas and the Fullahs, although the shared language is Mandingo; but also Mendes and Temnes in Bo and Kenema. The *Open-Yai* includes diamond peddlers (*ñikoñiko*, *banabana*, *jewellerman*) and illegal dealers.⁴⁴ The peddlers go into the bush or “hang around on street corners” in search of miners or labourers with stones to sell.⁴⁵ They either buy stones directly or introduce the seller to an appropriate buyer (see coxer).

Lebanese dealers in Koidu complain of peddlers coming to their offices with stones to sell. In fact, a peddler might only use a dealer to gauge his assessment, so he can ascertain the price to offer the miner, increasing his own profit. One dealer told the Study Team that this is an irritation because it wastes his time and because peddlers like these are “crooks” who eat into the miner’s profit.⁴⁶ On this basis he claims not to buy from the *Open-Yai*.

People sell to diamond peddlers and illegal dealers:

1. when they do not have the knowledge or confidence to approach a licensed dealer (inexperienced or young labourers may be intimidated by the dealer’s relative expertise and fearful that he will cheat them);

2. when they are in the bush, want to sell quickly, and do not want to go to one of the main towns to do so (e.g. if they do not want to leave their mine but need the money to continue);
3. when they have stolen a gem and want to make a sale as quickly as possible without attracting the attention of the authorities;
4. if the peddler or dealer has given them support; or
5. if the peddler or dealer can convince them that he can give them a better price.

When a special stone hits the market, the *Open-Yai*, and thus the Maraka and Fullah community, are usually the first to know. They can offer than the supporter more for special stones because they will not factor in the costs of production.⁴⁷ However, people believe that the Lebanese are more likely to be able to put together the funds necessary to purchase a valuable stone, and so it is not unusual for the Lebanese to work with *Open-Yai* dealers on these occasions.

Peddlers sell their stones to illegal dealers, but also to licensed dealers and their agents, who then market the illegally bought stones as legal wares. One international buyer admitted that dealers regularly falsify receipts for this purpose.⁴⁸ The *Open-Yai* also sell to licensed miners who wish to improve a parcel to meet a legal dealer's preferences.⁴⁹ Otherwise, the *Open-Yai*'s diamonds are smuggled out of the country, usually through Guinea, and are sold in one of the other ECOWAS states where diamonds can fetch better prices.⁵⁰ Some are taken to major buying and cutting centres directly.

The *Open-Yai* also provides three positive services. Firstly, it increases competition in the buying market. Miners who are unconcerned about the legality of their deal have a greater choice of buyers than those who prefer to sell legally. Secondly, it acts as a funnel for diverting illegal stones into the legal sphere (though it also diverts legal stones into the illegal sphere). Thirdly, Sierra Leoneans who want to learn how to trade or value diamonds, and who may not otherwise get the opportunity, can do so in the *Open-Yai*. Some of these people go on to become licensed dealers or agents.⁵¹ According to Mines Monitoring Officers, this is the reason the *Open-Yai* is mostly tolerated by government, except for the odd shake-up. Of course, it may also be tolerated because the presence of illegal activity gives poorly paid officials wider options for receiving bribes.

In 2004, the MMR and the Chairman of the Kono Dealers' Association (KDA) claimed that suggestions had been made to legalise the *Open-Yai* through the creation of brokering licences which could be paid for on a monthly or quarterly basis to enable those with limited capital but sufficient desire to deal legally. This scheme would help increase competition in the legal market without marginalising those who deal diamonds on a smaller scale and who need more experience and a higher turnover to move into licensed dealing. Despite the suggested pegging of such a broker's licence at a tiny \$50 per quarter – instead of the \$2000 per annum a citizen dealer must pay – many members of the *Open-Yai* protest, rather unconvincingly, that they cannot afford even this amount.⁵² According to the chairman of the KDA this licensing would bring the government some revenue and it would enable those who want to carry on with their learning to avoid hassle from corrupt officials. He stated that people are motivated to legalise their activities when it is cheaper to deal legally than illegally. In this situation corruption could well encourage people to operate legally. Until this “peddling licence” is pursued seriously, however, the *Open-Yai* will continue to bridge the legal and illegal spheres.

Coaxers

There are two types of coxer. There are those who work for a dealer and are based in his office.⁵³ They act as receptionists to encourage miners to stay or to return with their parcel if the dealer is busy with another client. They may also go out looking for miners with stones to sell. For non-African buyers, they act as a cultural bridge to Sierra Leonean miners. The coaxers chat up their Sierra Leonean “brothers” in the dealers’ office to make them feel comfortable and secure, and coax them to sell to someone who they have come to believe is trustworthy and who will give them a fair price. One Lebanese exporter explained he had three coaxers of three different tribes (Fullah, Maraka, Madingo) for just this reason.⁵⁴ If the deal is struck, the coxer receives a commission from the dealer. Some coaxers are also paid a monthly wage.⁵⁵

The other type of coxer is a diamond peddler who finds miners and mineworkers with stones to sell. He then convinces the seller he can introduce him to a fair, licensed dealer for a small tip. The coxer takes the seller to the dealer’s office and will appear to barter on the side of the seller. Generally speaking coaxers have superior knowledge of diamond values than the miner or mineworker and so will often be negotiating in a way that seems to benefit the seller, whilst really benefiting the dealer and himself. In this way the independent coxer gets commissions from both the dealer and the seller.

Legal Dealers and their Agents

The MMR classifies dealers into three categories: citizen (including naturalised foreigners), ECOWAS citizen, and foreign national. In fact, it is more useful to break the dealers into four broad categories: indigenous citizens, ECOWAS citizens, Lebanese (both naturalised and foreign), and foreign nationals.⁵⁶ Of the four categories, anecdotal evidence suggests that “ECOWAS citizens” – that is, ethnic Marakas from mainly the Gambia, Senegal and Mali – dominate the dealer/supporter category, if one includes both legal and illegal dealerships. Marakas and Fullahs are more likely to deal with illegal miners and dealers because their style of informal support attracts the most vulnerable miners and labourers.⁵⁷ Furthermore, legal Maraka dealers effectively use the illegal Marakas as agents for siphoning stones to them.⁵⁸ In the legal trade, however, the Lebanese dominate.⁵⁹

In some cases, diggers go directly to dealers, but only when they have either stolen the diamond from a legal operation, or when they have extracted it from illegal mining operations. Otherwise, diggers can sell legally to dealers only when they are organised into a cooperative and mine under a cooperative’s licence.

According to a former exporter, big dealers may turn over up to \$300,000-400,000 per week, which is large enough to enable them to operate as exporters.⁶⁰ And yet they choose not to. One famous Maraka dealer based in Freetown reportedly had a turnover of over \$1million a month in 2005. His brother stated that they saw about 50 stones a day, on average. This dealer used to be an exporter but decided to revert to dealing alone, because he felt it was easier and more profitable

Dealers sell to exporters they know. Some even base their offers on their understanding of a particular exporter’s pricing style.⁶¹ Although it is illegal, licensed dealers will sell to other licensed dealers. They do this to get a better price, if they need liquidity, or to test their own pricing.

Some analysts have suggested removing or consolidating the dealer layer altogether. Yet dealers argue that they are necessary to the industry as it currently operates because, firstly, the expertise gap between the exporter and the miner is so large that it is easier for an exporter to cheat a miner than for a dealer to do so. Secondly, if there were no dealers, there would be minimal support to the sector. Without their support, the only artisanal mining that would proceed would be well-prospected and sites of proven economic viability, managed by competent miners. This might not be a bad thing entirely. It would streamline the industry and guarantee that only viable land was mined, freeing up marginal land for other uses. It would also ensure that there was greater profit to be made by both the exporter and the miner. It might attract international players into the market who would be prepared to guarantee miners rates pegged to Antwerp prices. But it would certainly drive most of the dealers underground and could lead to increased smuggling.

Fly-by-nights: International Buyers

The “fly-by-nights” are international buyers who dip in and out of the country to buy diamonds.⁶² Some of these individuals work for legitimate diamond businesses and come to test the market for future dealings. They either declare the cash they bring in or they bring it through the banks. They also apply for the appropriate immigration, residency and work permits, along with a dealer’s or exporter’s licence from the Ministry of Mines.⁶³ They may go to the provinces, or remain in Freetown, working with a local dealer to buy diamonds for export. If they do not have an exporting licence, they will export under an existing exporter in exchange for a commission, (usually one per cent).⁶⁴

Many other fly-by-nights, however, come with a bigger, criminal agenda and abuse the system in order to launder money or to buy diamonds for other uses. These criminals work in three different ways:

1. *The Diamond Smuggler*: The investor brings in cash and does not declare it. The cash may come through a separate route to meet him in the country. He meets with his local facilitator, who will notify potential sellers that he is buying. He then sits in a hotel and waits for diamonds to come over a period of about two days. When he leaves with them, he does not declare them;
2. *Money Launderer A*: The investor brings his money in as cash and does not declare it. The cash may come through a separate route to meet him in the country. He buys a dealer’s licence from the Ministry of Mines, enabling him to purchase, sell and handle diamonds legally. He meets with his local facilitator, who notifies potential sellers. He then sits in a hotel and waits for the diamonds to come. He will over-pay for poor quality diamonds.⁶⁵ He buys his diamonds and exports them under a licensed exporter. Once abroad, he can sell his diamonds as certified Sierra Leonean gems, and thereby get “clean” money for them;
3. *Money Launderer B*: The investor brings his money in as cash and does not declare it. He sits in the office of a local licensed dealer, dealer’s agent, or exporter’s agent. The licensed buyer uses the investor’s money in return for a commission on the sales. The diamonds are exported under a licensed exporter. The investor will over-pay for poor quality diamonds. Once abroad, he can sell his diamonds as certified Sierra Leonean diamonds and thereby get “clean” money for them.

The fly-by-nights usually have local contacts who act as facilitators. These “facilitators” may be people of high social standing, whose position offers the investor protection from harassment by

the authorities. Others are people with links to the local dealing communities, usually members of the *Open-Yai*, who spread the word that there is an international buyer in town. Lebanese dealers and exporters are quick to point out that they do not do business with fly-by-nights, probably because the Lebanese community has been accused of having connections with international terrorist and criminal networks in the past.⁶⁶ A Maraka and some Sierra Leoneans, on the other hand, spoke freely to the Study Team of their preference for buying from these people because they offer good prices. The fly-by-nights can afford to pay above-market prices, either because they are using dirty money and do not worry about a loss, or because they are buying for a different market from the one served by local dealers. Given the international importance put on money laundering and the potential for diamonds to be used by international criminal and terrorist elements, the lack of attention to the *Open-Yai* – and the comparative scrutiny of the Lebanese community – by international observers is certainly curious.⁶⁷

Dealers, exporters, agents, and industry officials say that fly-by-nights come principally from the former Soviet Union (especially Russia, Ukraine and Armenia), but they also come from Europe (especially the UK and Belgium), the USA (especially African Americans), Israel, and Lebanon. A cursory look at the destination countries for Sierra Leone's legally exported diamonds shows parcels going to these destinations. Almost certainly, some of these consignments will have been bought in Sierra Leone using dirty money.

Table 3: Destination Countries for Sierra Leonean Diamonds 2003-2005

Destination	2003			2004			Jan to Oct 2005		
	No. of certs	Carats	Value (\$)	No. of certs	Carats	Value (\$)	No. of certs	Carats	Value (\$)
Andorra	1	23.6	9,500						
Armenia	2	600.3	178,346	2	318.3	51,276	2	50.3	19630
Australia							1	12.3	10761
Belarus							1	137.2	58350
Belgium	268	491,410.9	71,184,588	232	649,523.3	115,972,080	218	479,961.3	103,882,022
Canada	1	49.6	32,000	4	162.9	70,624			
China	1	128.2	47,664						
Cyprus	1	148.8	93,841						
Denmark	1	1.0	1,000						
Gambia	1	117.7	27,060						
Germany	1	9.3	7,001				2	409.1	104,528
Greece				1	2.4	66			
Hong Kong	2	287.3	87,096	2	276.8	32,285			
India	1	5.3	1,210	2	72.6	76,156	1	621.6	26,108
Israel	11	1,913.4	792,572	24	12,464.4	2,988,560	10	2,633.8	576,908
Italy							1	15.4	10,088
Japan				2	31.2	63,211	1	25.2	20,000
Latvia	3	382.8	186,776				1	24.3	56,477
Lebanon	2	114.0	61,852						
Luxembourg							1	5.3	1,699
Mauritius							4	264.0	194,153
Netherlands	3	5136.5	606,258	1	198.9	12,930	2	18.4	26,699
Poland	1	82.6	6807	1	74.0	17,770	2	204.2	28,336
Russia	3	290.8	88,912	1	56.1	37,412			
South Africa	1	58.9	14,000	1	38.5	18,900			
South Korea	2	107.4	35,521	2	48.6	23,780			

Spain	1	446.5	54,000				1	8.9	9,060
Switzerland				2	13,238.4	2,844,708	6	103.8	51,423
Thailand							1	302.7	35,243
UAE	5	272.7	81,553	7	862.6	188,169	6	4,978.7	1,066,657
UK	24	1,659.5	581,850	24	11,557.9	2,646,890	32	2,151.1	639,971
Ukraine	1	3.4	1,650						
USA	41	3,473.0	1,788,699	37	2,830.0	1,607,818	37	2,869.8	2,191,201

In order to limit the use of laundered money, stricter controls need to be placed on the allocation of buying licences, and on the performance of licensees. The Ministry should perform background checks on all foreign nationals applying for dealers' and exporters' licences. It may even be necessary for the licensing procedure to be investigated by a Commission, in order to ensure that *all* licences, including small-scale and industrial diamond mining licences, are allocated according to transparent procedures that adhere to Laws of the Republic of Sierra Leone and protect the interests of the nation.

Exporters and their Agents

Given that artisanal diamond mining is the predominant mode of production, and in the absence of significant new diamond finds, it is unlikely that future diamond production will again match the production of the 1960s, when exports peaked at two million carats. The official export figures for 2004 and 2005, however, are the best since 1979, when the country exported 855,000 carats – probably realistically reflecting actual diamond production potential at the time.⁶⁸ Official exports collapsed in the 1980s, after President Siaka Stevens had “nationalized” (in fact, personalized) and corrupted the industry. The country exported only 11,000 carats in 1988. Exports rose significantly after the NPRC military regime took power in the early 1990s (347,000 carats in 1992, and 255,000 carats in 1994), but plunged to only 9,000 carats in 1999 as a result of the ravages of the rebel war.⁶⁹

In 2005, Sierra Leone officially exported \$142 million worth of diamonds, about 82 per cent of which derived from artisanal diamond miners. In terms of dollar value, this exceeded official exports for 2004 (\$126 million); in terms of caratage, however, 2005 exports (668,000 carats) were less than that in 2004 (691,000 carats). Exports through licensed diamond exporters fell by 12% in terms of caratage (from 612,500 carats to 540,732 carats) but they grew by 3% in terms of dollar value (from \$112.7 million to \$116.2 million). Value per carat grew by 17%. There are three possible explanations:

1. Since most smuggling involves valuable diamonds, the significant increase in value per carat suggests that a lower proportion of Sierra Leonean diamonds are being smuggled out of the country;
2. With production figures being lower for 2005, based on heavy rains discouraging both legal and illegal mining in Kono and possibly elsewhere in the country, it may also be that specials from other countries, such as Guinea, Liberia or Côte D'Ivoire, are being exported as Sierra Leonean diamonds;
3. The GDD may have overvalued; or it may have stopped undervaluing (it updated its price book, which had been based on 1996 prices, in early 2005).

Fig. 6: Official Industrial and Artisanal Exports (1932-2005) and Estimated Smuggled Output (1950-74 & 1989-99)⁷⁰

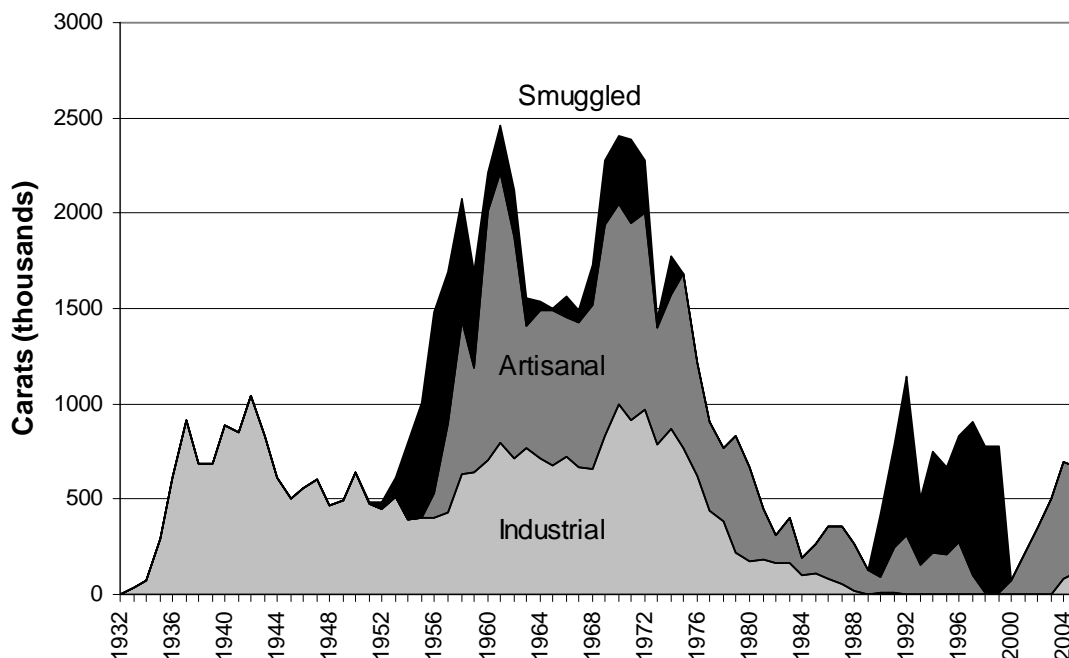


Table 4: Diamond Exports by Licence Type 2003-2005⁷¹

	TYPE OF LICENCE	CARATS	VALUE (\$)	TAX (3 / 5.50/ 6%)	VALUE/CARAT (\$/ct)
2005	Diamond Export	540,731.52	116,183,451.12	3,485,503.53	214.86
	Diamond Mining	11,291.68	3,236,747.70	194,204.86	286.65
	Kimberlite Mining	116,665.22	22,510,716.03	1,238,089.38	192.95
	Special Dispensation	20.72	9,329.00	559.74	450.24
	TOTAL	668,709.14	141,940,243.85	4,918,357.52	212.26
2004	Diamond Export	612,499.53	112,654,805.55	3,379,644.17	183.93
	Diamond Mining	782.33	134,347.54	8,060.85	171.73
	Kimberlite Mining	78,458.29	13,859,589.23	762,277.41	176.65
	Special Dispensation	16.77	3,891.94	233.52	233.52
	TOTAL	691,756.92	126,652,634.26	4,150,215.94	183.09
2003	Diamond Export (TOTAL)	506,723.37	75,969,753.32	2,279,092.60	149.92
2002	Diamond Export (TOTAL)	351,859.23	41,732,130.30	1,251,963.91	118.60

The outlook for official Sierra Leonean exports is not entirely rosy for 2006, according to the GDD. The General Manager holds the opinion that smuggling is likely to increase owing to the probable lifting of Liberian sanctions on diamond exports at some point mid-year, and the likely diversion of diamonds from official to unofficial channels by licensed exporters and dealers in response to the imposition of a further 3% tax on export value (making it effectively 6% as opposed to a regional standard of 2.5-3%) as part of the National Revenue Authority's collection of income tax for 2003-2005 (see below).⁷²

In 2005, there were 11 diamond exporters working in Sierra Leone (excluding two who used the January grace period to export), and 37 agents. Of these, seven exported over \$1 million during the year; six of these seven are Lebanese. The top three exporters represented 90% of the artisanal diamond exporters' share of total exports. The largest exporter, Hisham Mackie, has an average turnover of \$5 million per month. A number of international buyers have attempted to enter the Sierra Leonean market, but find it extremely difficult to compete with the Lebanese, who are apparently better at keeping their costs down and so can offer better prices.

Table 5: Exporters' Performance for 2005⁷³

EXPORTERS	LICENCE NO.	CARATS	VALUE US\$	% EXPT.
H.M.DIAMONDS	DEL/1/05	303,231.21	59,443,312.61	41.88
KASSIM BASMA	DEL/3/05	106,270.93	26,892,862.64	18.95
SARAHDIAM	DEL/2/05	94,604.23	18,740,362.92	13.20
WAKA FAST DIAMOND EXP. LTD.	DEL/9/05	13,356.85	4,277,562.16	3.01
OMAR HASSAN GHAZZAWI	DEL/7/05	9,110.08	2,041,089.47	1.44
NASSER HAMAD HBABI	DEL/8/05	3,550.22	1,753,059.14	1.24
SAM WESTREICH	DEL/6/05	3,631.01	1,368,348.63	0.96
INT.COMMODITIES EXPORTERS	DEL/5/05	4,506.32	701,955.62	0.49
REDWOOD LTD.	DEL/4/05	514.33	443,236.80	0.31
B.S.K. IMPORTS	DEL/11/05	202.29	243,211.83	0.17
BEULAH GROUP (SL)LTD	DEL/10/05	12.32	10,760.92	0.01
SIMA STAR CO.(SL)LTD.	GRACE PERIOD	1,566.33	251,643.63	0.18
ANDRÉ T.HOPE	GRACE PERIOD	175.40	16,044.75	0.01
Artisanal Diamond Exporters		540,731.52	116,183,451.12	81.67
SANDOH DEV. CORP.	DML/2/05	4,474.98	1,899,392.96	1.34
AFRICA GOLD & DIAMOND	DML/1/03	4,871.54	965,061.92	0.68
MAGNA EGOLI MINING	DML/12/05	559.24	152,296.31	0.11
A.V.CHARGE	DML/9/05	315.84	50,009.83	0.04
ARCADIA MINING CO.	DML/6/05	292.60	26,133.30	0.02
AR-RAHMAN	DML/27/05	93.41	9,952.54	0.01
EUROAFRICAN IMPT. & EXP LTD	DML6/04	20.30	2,878.50	0.00
AFRICA DIAMONDS PLC	EXPL/8/02	663.77	131,022.34	0.09
Small-Scale Mining Companies		11,291.68	3,236,747.70	2.28
CHRISTOPHER JOHN	SPEC. DISP.	5.41	3,050.00	0.00
EMMANUEL ONOSIEM	SPEC. DISP.	5.17	2,380.00	0.00
FRANCIS TRON	SPEC. DISP.	5.31	1,699.00	0.00
ALTHEA SHUSTER	SPEC. DISP.	1.89	1,300.00	0.00
FUAD GASIMOV	SPEC. DISP.	1.44	450.00	0.00
TARYN SMITH	SPEC. DISP.	1.50	450.00	0.00
Special Dispensation		20.72	9,329.00	0.01
TOTAL		552,043.92	119,429,527.82	84.14

Most dealers and their agents aspire to become exporters but believe the opportunity will only come if they get a big diamond or if an international buyer is willing to fund them.⁷⁴ Yet not all dealers think this way. Bajuko Kabba is one of Sierra Leone's biggest licensed dealers, and he

used to be an exporter. He decided to stop exporting because it was comparatively more difficult and less profitable than dealing. According to him, prices in Sierra Leone are comparatively high because there is too much internal competition, making it hard to sell for a profit overseas. In addition, to be an exporter, it is essential to have a trustworthy and conscientious buyer because:

1. The international market is highly competitive. If you export blindly then you will lose 90% of the time;
2. If the buyer delays payment, the exporter might find himself without enough cash to continue his business;
3. The buyer must keep up-to-date on price fluctuations in the market.

According to the GDD, the Ministry of Mines will not share its list of licensed exporters with them. They learn of exporters only when they bring their diamonds for export. It may well be the case, therefore, that exporter licences are being allocated to people who do not export enough diamonds to justify a licence, or who use the licence as a right to own or handle diamonds for some other purpose. For this reason the independent valuator for the GDD would like to see performance targets set for exporters.⁷⁵

Part Two

Diamond Pricing and Revenue Flows

Pricing

In order of importance, in Sierra Leone's diamond marketing chain, buyers base their prices on:

1. the quality of the diamond and its value on the international market (factoring in their own buyer's preferences and valuing style);
2. the seller's knowledge;
3. the seller's position in the chain (and what he is likely to receive from the competition);
4. costs (taxes, fees, supporting, bank/currency charges, office costs, handshakes and tips);
5. whether the stone is of dubious progeny, i.e. if it is stolen, smuggled in from another country, or illegally mined.

Valuing a diamond requires a good understanding of the likely yield and shape of the cut product, the quality and rarity of colour, the clarity of the stone and its weight. De Beers grades diamonds into 12,000 classes. As each diamond is unique and the value of a diamond is based largely on its relative beauty, pricing is a highly subjective skill. Furthermore, value per carat increases exponentially with the size of the diamond. It is therefore very difficult to map changes in the value of a diamond as it moves along the supply chain. In very approximate terms, however, a good quality, one carat rough gem will bring the digger \$130, the miner \$370, the supporter/dealer \$1000, and the exporter \$1100.⁷⁶

It is very hard to tell precisely who makes the most money in Sierra Leone's diamond marketing industry. Certainly the exporters make the most in terms of actual cash as there are just 13 exporters competing for diamonds from 270 dealers and their agents. Exporters appear to operate on margins of 10-15% gross. Once you account for costs, however, they say that their profit may be as low as 3-5%.⁷⁷ In fact, it is more likely to be 5-10% on consignments of commonly-found stones, and much more on specials and diamonds exceeding five carats. This is because for ordinary production, they buy mostly from dealers whose expertise tends to be close to their own.

Exporters make the largest profit margin when they buy directly from the miner. It is therefore unclear whether an exporter funding mining and buying his diamonds directly from the miners would ensure that the diggers get better prices.

In a single transaction the dealer or supporter usually has the largest profit margin. Dealers may make 100% or more on specials, though the modal figure given to the Study Team was 50%. This is not the case, however, with gems under about two carats. At the time of writing, it was said to be extremely difficult for dealers to make a profit on small stones, because miners price these with confidence, move from place to place in order to get the best price. Thus miners make the largest profit on small stones. At most, dealers say, they just cover their costs, and may even sell at a loss when buying a small gem. Whilst this seemingly goes against conventional business sense, it is quite rational (if true). Dealers and exporters make their biggest profits on stones above two carats and on specials. If they pay high for a small stone, the miner will expect them to pay well for a big stone. Taking losses on small stones is an investment strategy for attracting the type of product the business wants – it is essentially a loss leader.

Despite their potential for large profits, dealers claim that the licence-holder makes the most money because he bears none of the financial risk and because his knowledge is far superior to that of the diggers from whom he buys. Apparently licensed miners pre-advise dealers when diggers are not willing to bargain. Once diggers and licence-holder are in a supporter's office, the supporter will argue for a price at least 10% under what he is actually prepared to offer. In this way diggers are led to believe that they are being treated fairly (because they've witnessed and participated in the negotiations with the supporter), and the miner ensures that he gets a larger share of the profits.⁷⁸

When the cost of support is taken into account, it would seem that dealers have a lot to lose, as well as to gain. However, the actual logic of support sustains a dealer's profits, as he continues to attract other supporters' diamonds. Furthermore, dealers are fishing in a larger pond than miners. A dealer has more chance of coming across a profitable gem than a miner, as there is a certainty that diamonds will come to him so long as he supports, advertises, and pays as high as he can.

By working backwards from official export statistics, and using anecdotally suggested profit margins, it is possible to estimate average turnover and profits at each stage of the chain. This is a vastly simplified and hypothetical estimation, whose utility lies more in its ability to demonstrate relative and possible gains at each step of the chain. According to official statistics and rational estimates, in 2005 there were seven major exporters,⁷⁹ approximately 152 licensed dealers⁸⁰ and 165 licensed dealers' agents,⁸¹ 2,400 miners and 120,000 diggers.⁸² If one assumes that all diamonds exported officially were legal for their entire journey from mine through market to point of export, then one can estimate the following:

Table 6: Comparative Profits Up the Chain

Who**	Number (2005)	Amount received from buyer	Profit margin	Amount given to seller (before costs)	Gross profit (total)	Gross profit each
Exporters	7 major	\$116.2m	10%	\$105.5m	\$10.7m	\$1.5m
Licensed dealers and their agents	317	\$105.5m	50%	\$70.3m	\$35.2m	\$111,000
Licensed miners	2,400	\$70.3m	200%	\$23.4m [†]	\$46.9m	\$19,542*
Diggers working on licensed land	120,000	\$23.4m [†]	n/a	n/a	\$23.4m	\$195

* NB The cost of mining one acre is about \$20,000 (see above). Miners are paid after costs are accounted for. If every licensed miner mines only one acre, then miners are currently losing \$458 each, and so will receive nothing from their supporter. Since diggers are paid a share of profits only, then the diggers receive nothing either. ** Assumes that all diamonds exported legally were legal for their entire journey from mine through market to point of export. † Includes support

Administrative Costs

There are two main types of government levies on the diamond industry. The first cluster, which is potentially the more significant, is the taxes and fees paid to the government for licences entitling people to artisanally mine for, deal in and export diamonds.⁸³

Table 7: Revised Fees for Small-scale and Artisanal Mining and Marketing Under the Mines and Mineral Act⁸⁴

1. Alluvial Diamond Exporter's licence	Year	US\$ 40,000
	Half Year	US\$ 25,000
2. Alluvial Diamond Exporter's Agents Certificate	Year	US\$ 5,000
3. Alluvial Diamond Dealer's Licence		
Non-citizen	Year	US\$ 5,000
	Half Year	US\$ 3,000
ECOWAS citizen	Year	US\$ 2,500
	Half Year	US\$ 1,700
Citizen	Year	US\$ 2,000
	Half Year	US\$ 1,500
Monitoring Fee	Year	US\$ 400
	Half Year	US\$ 250
Rehabilitation Fee	Year	Le 500,000
	Half Year	Le 300,000
4. Alluvial Diamond Dealer's Agent's Certificate	Year	US\$ 1,000
	Half Year	US\$ 700
ECOWAS Citizen	Year	US\$ 1,500
	Half Year	US\$ 1,000
5. Diamond Mining		
Artisanal and Co-operative Mining Licence	Year/Acre	Le 200,000
Small Scale Mining Lease	Year/Acre	Le 750,000
Mine Manager's Certificate (Artisanal and Co-operative Mining Licences)	Year/Acre	Le 100,000
Mine Manager's Certificate (Body Corporate)		
Citizen	Year	Le 200,000
Non Citizen	Year	Le 750,000
Licence to Dredge	Year	US\$ 500
Monitoring fee	Year/Acre	Le 100,000
Rehabilitation fee		
Artisanal Mining Licence	Year/Acre	Le 200,000
Small Scale Mining Lease Holder	Year/Acre	Company to rehabilitate
Surface rent	Year/Acre	Le 100,000
Registration of Financial Support	Year	Le 50,000
6. Administrative Expenses/Export Charges		
Royalty on Export of Diamonds ⁸⁵		3 % of export value
Distribution of such royalty is as follows:		
Special Treasury Account		0.70%
GDD	Non-citizen	0.75%

Mining Community Development Monitoring Fund	Citizen	0.75%
Independent Valuator		0.25%
Rehabilitation Fund		0.40%
Public Information Unit		0.05%
PMMT (Precious Mineral Monitoring Team)		0.05%
Royalty for Small Scale Mining Lease Holders wishing to export their winnings		5% of Export Value + 1% valuation fee

An artisanal or co-operative mining lease per acre, per year, costs Le200,000. When rehabilitation fees (Le 200,000), Mine’s Manager’s certificate (Le 100,000) and monitoring fees (Le100,000) are added, fees to national government are Le600,000; additional payments to traditional authorities, including surface rent of Le100,000, inflate the amount to close to over Le800,000 (about \$270). When “handshakes” to officials are included, the cost of an artisanal mining licence generally exceeds a million leones (about \$330).⁸⁶ Put in context, however, this is a small amount: the average overall cost of mining an acre artisanally for a period of 10 months is between \$15,000 and \$25,000. While artisanal miners are generally poor, many living at subsistence levels, the license fees are eminently reasonable. They certainly cannot be an inducement either for smuggling diamonds or for their supporters (who pay for these licenses) underpaying them for their winnings.

The second significant tax is the three per cent “royalty of export of diamonds”. In fact, this not a royalty, but simply an export duty. The rate is consistent with regional export taxes on diamonds, and so has a limited effect on inciting smuggling. It is one of the principle costs that exporters consider in determining prices, and is collected as part of the commission they receive when allowing someone to export under their licence.

There is another tax which, if implemented properly, would have generated over \$4 million for the government had it been applied in 2005.⁸⁷ The Mines and Minerals Act of 1996 (Section 96) imposes a royalty payment of five per cent of the ex-mine price (i.e. the value obtained at the first point of sale) on *all* mining operations. Yet ministry officials who were asked about this royalty understood it to apply only to industrial operations. No artisanal or small scale mining operations as yet pay it, so it does not a price factor.⁸⁸ Were it to be applied, it would be collected from whomever the miner sold to, and so would have to be factored in to prices paid by the buyer.

The third tax of significance is income tax. Corporate income tax is calculated at 30% of income after applicable deductions.⁸⁹ However, the holder of a mining lease pays a flat income tax of 3.5% where his/her chargeable income is below 7% of turnover.⁹⁰ Should an individual not provide satisfactory assessments to the National Revenue Authority, the flat tax rate is applied.

Table 8: Personal Income Tax Rates as of 2004⁹¹

Income per annum	Tax Rate
Le 0 to Le 1 million	Nil
Le 1 million to Le 3 million	20% of the amount over Le 1 million
Le 3 million to Le 5 million	25% of the amount over Le 3 million
Le 5 million to Le 7.5 million	30% on the amount over Le 5 million
Over Le 7.5 million	35% of the amount over Le 7.5 million

Table 9: Minimum Personal Income Tax Rates as of 2000 and 2005⁹²

Role	2000	2005
41. Diamond exporters (companies and individuals) (percentage of export value)	2%	2%
42. Exporter's agents	Le 960,000	Le 1,200,000
43. Non-citizen diamond dealers	Le 360,000	Le 600,000
44. Citizen diamond dealers	Le 240,000	Le 600,000
45. Alluvial diamond miners (per licence issued)	Le 36,000	Le 96,000
Diamond dealer's agent	n/a	Le 180,000

In September 2005, the NRA announced that it was going to collect income tax from diamond exporters for the years 2003 to 2005. Those unable to provide the NRA with their books, or whose books were unsatisfactory, would have to pay two per cent on the value of the diamond exports in lieu of a tax assessment based on profits. Most did not have books to submit (or would not submit them). Exporters alleged that the Ministry of Mines had led them to understand that a quarter of the 3% export duty was effectively an income tax (equivalent to 0.75% of export value).⁹³ Since most, therefore, had not paid this tax for two years (which in itself is a criminal offence), and since the levy of the fine for non-payment is 1%, exporters found themselves being charged an income tax of 3% on their export value for 2003, 2004 and 2005.

They saw this as an effective rise in the export duty to 6%. The bigger exporters, some of whom also exported on behalf of others for a fee that did not include this calculation, soon realized that the retroactive payment would eat significantly into their prior year profits. Dealers and exporters' agents in Bo and Kenema told the Study Team that exporters have been complaining about a fall in international prices in order to justify paying less for diamonds. The international market, however, has actually remained steady. The exporters are evidently trying to pass on this surprise cost to dealers and miners, who would then, of course, pass it on to diggers.⁹⁴ The Exporters' Association is currently in negotiations with the NRA, having requested that the years 2003 and 2004 be forgiven and forgotten.⁹⁵

The National Social Security Insurance Trust requires an employer and an employee to pay 10% and 5% respectively of an employee's salary. In diamond offices, however, most people are employed informally and so these fees are not paid.

Besides these nation-wide taxes, diamond dealers and their agents have to pay local taxes. In Kono District these amount to about \$167 per annum, being a town council tax on the dealer's office (Le400,000), a tax on the diamond scale (Le100,000). These costs are not enough to affect the prices a dealer will offer, as they can be easily absorbed by the dealer's profit.

Reporting requirements have no effect on diamond prices. Dealers, agents, and exporters are supposed to provide reports of their purchases and sales to the Ministry of Mines, via the Mines Monitoring Officers, who supervise their businesses. These reporting practices are largely cursory, however, as many MMOs are more in the employ of marketers than of the ministry. *De facto*, it is largely unnecessary for diamond marketers to report accurately and so this does not affect the price.

Currency

The official currency is the Leone. However, the dollar is freely available in Sierra Leone, and is widely used as an alternative currency. It is also very easy to change money on the street, where flocks of “dollar boys” will change at preferential rates. In 2000, the government amended the Exchange Control Act, requiring diamond exporters to finance all diamond operations using US dollars. It is not clear, however, if dealers are permitted to receive dollars for their diamonds. Nonetheless, as it transpires, dollars and leones are used interchangeably in the marketing chain. Currency is a matter of preference and availability, not legality.

Diggers prefer to receive leones because this is the only currency they have a use for. Diggers and miners might also accept mining equipment or personal items in part payment for their diamonds. Lena Fawaz, who runs a general store alongside her husband’s dealership, claimed that business was so bad in Kono at the time this report was written that she preferred to use goods from her shop instead of cash to buy diamonds.⁹⁶ Otherwise, miners prefer to receive leones because a) they are vulnerable to duping when exchanging their dollars on the black market, b) they don’t want people knowing their business, and if they were to change a sizeable amount, word would get around and c) they need them to buy the things necessary for support. However, Bajuko Kabba claimed that miners prefer dollars when selling diamonds over three carats, because dollars are far easier and more discrete to transport.⁹⁷ Saikou Touray, whose office is in Koidu Town, claimed that it is only the “big men”, such as chiefs, who want dollars for diamonds. Generally speaking, licensed dealers prefer to sell for whatever currency they had to use to buy the diamond(s). The *Open-Yai* buys predominantly in leones.

Some exporters pay with cash. Others give cheques or arrange for funds to be transferred to the dealer’s account. If exporters purchase diamonds using leones notes, it is possible for them to make a double profit. Since the exporter brings in US dollars, and since importers need to transfer US dollars abroad to buy their goods for import, it is common for diamond exporters and importers of other goods to make private arrangements to exchange money. Sometimes this takes place on a cash basis, but this is difficult with large sums if the exporter has brought the money in through the bank, as banks rarely have sufficient cash dollars, according to most accounts.⁹⁸

In the past, these exchanges would take place outside the country. In recent years it has become common for parties to agree on a rate and then digitally transfer money between their respective dollar and leone accounts in Sierra Leonean banks.⁹⁹ This rate will usually be *above* the informal street rate and the bank rate for buying dollars (e.g. \$1 = Le3050 as opposed to Le3000 on the street and Le2800 in the bank). The exporter will then negotiate his transactions in dollars, but will pay in leones at a rate a little *below* the street rate (e.g. \$1 = Le 2950). Miners and dealers will accept this if they do not want dollars. The receipt, however, will be issued in dollars. The difference on a transaction of \$100,000 may be as much as \$3,390, making money on the diamonds as well as the exchange rate.

Other Costs

There are a number of other costs which dealers and exporters must pay, beyond supporting, administration, and the appropriation of currency.

Styles of Marketing (attracting the diamonds)

Ordinary businesses invest a proportion of their capital in public relations, marketing and advertising. Diamond dealers, exporters and their agents promote their operations in the same

way. Some dealers buy advertisements on the radio or in the newspaper. It costs Le150,000 a month to have an advertisement read daily on Kono radio, and Le 50,000 per month for daily advertisements in the *Kono Voice* newspaper. Dealers also implement community improvement or development projects. For example, in 2005 the Kono Dealers Association claimed to have spent \$13,000 on helping 300 children go to secondary school in 2005. In 2004, the Five Country Committee is alleged to have paid for the construction of a four bedroom house for a senior police officer in Kono District and for an officers' mess for the Republic of Sierra Leone Armed Forces.¹⁰⁰

One exporter told the Study Team that he goes out of his way to do his clients favours, as a strategy for ensuring their patronage. He said, for example, that if he purchased a stone that was later claimed to have been stolen, he would compensate the claimant if the case seemed legitimate, taking the cut from his own profit. This would induce a sense of loyalty from the individual in question, who would then likely return with business in the future.¹⁰¹

Other Expenses

Other expenses include dealers' and exporters' association fees (\$500 per annum for the latter), office expenses (stationery, valuing equipment, rental of the office space, generator and fuel, employees' salaries), financial management expenses (national and foreign banks), and any bribe necessary to avert problems with the authorities or to speed up formalities.¹⁰²

Other Issues

There is no obvious evidence of people using diamonds as a currency. There is no obvious evidence of people using diamonds to hide or export profits. It is not clear, however, whether importers buy diamonds as a means of raising foreign currency. If this is happening, it is likely to be less common than it was when foreign currency was restricted, because of the improved availability of cash dollars in the banking system, although this remains unreliable. Increased competition in the banking sector also makes international transfers cheaper and more efficient (see below).

Prices are affected by fluctuations in the local and world markets. Since most diamond washing is done in May and June, and prices are slightly depressed at that time. July and August are vacation months in Europe, and so international buying is quieter, depressing prices further. According to a Mines Engineer in Kono, miners receive more for their diamonds if they hold on to them until prices recover later in the year, but few can do this because security is an issue, and because most need cash as soon as possible.

By far the most important determinant of price is the relative expertise of the negotiating parties. It is said that the Lebanese will pay Marakas more than Sierra Leoneans because they know the market better. This is an issue which the Peace Diamond Alliance has been trying to address through its valuing courses and the establishment of buying standards with the cooperatives' financier. USAID has also paid for an independent diamond valuer to have an office in the Ministry of Mines in Koidu Town so that miners can have stones valued before going to a buyer or supporter. DFID Advisor Jan Ketelaar has suggested that an electronic price book be developed by the GDD. It would be helpful if such a book could be developed and made publicly available to mining communities.

Revenue Flows

Banking System

Dealers may use banks to receive money from exporters, and to keep money safe, but the majority, especially amongst the West African group, prefer a “cash and carry” approach. Banks are unattractive to them for several reasons. Firstly, illiteracy rates are very high amongst African dealers and miners. Secondly, banks do not always have cash when it is required, especially dollars. And finally, the street rate of exchange is significantly better than the banks’, although the gap is narrowing. Legislation requiring all diamond buying transactions above \$500 to go through the banking system is likely to be unenforceable for these reasons.

One of the more prominent commercial banks in the country, the Union Trust Bank (UTB), in operation since 1995 and entirely Sierra Leonean-owned, has a few exporters as customers. On average, each circulates about \$500,000 a month through the bank from Europe.¹⁰³ But the bank is wary of getting more deeply involved in the diamond business, which carries a lot of risk. No mineworker or miner has an account with the UTB, and there is no consideration of credit facilities for artisanal miners. The UTB’s credit requirements are high, demanding easily convertible security (treasury bearer bonds, foreign bank accounts). The UTB does not accept land or real estate as security for loans, because of the country’s complex land and property laws.¹⁰⁴

One bank which has actively wooed the diamond sector is the Nigerian-owned Guaranty Trust Bank (GTB). In 2003, the bank did a survey which concluded that the Sierra Leonean diamond sector was not using the banking system very much. Even exporters were wary of the banks because of high fees and slow international transfers, taking as much as an entire working week. The GTB decided to import a large quantity of dollars, which they then sold to diamond exporters at the street rate. It also instituted a system in which money transfers from Europe would take only 24 hours, and from Freetown to the provincial towns, a few minutes. The bank also provided overdraft facilities for exporters with accounts with the GTB so they could bridge the gap between buying diamonds and receiving funds from overseas buyers. Within a year or two, the GTB, which is still new to Sierra Leone, had attracted most of the diamond exporters. Today, diamond dealers and exporters constitute about 20 per cent of the bank’s clientele, but it is estimated that they account for about 60 per cent of the cash passing through the bank.¹⁰⁵ The Bank says it has an explicit policy of targeting the elite stratum of Sierra Leone’s formal sector, particularly those industries dealing with foreign exchange in the telecommunications, brewery, cement, and fuel sectors, as a strategy for growing and strengthening their business in Sierra Leone.¹⁰⁶

Within the banking community, there are rumours of money laundering and other unsavoury practices associated with some of the newer, Nigerian-owned banks. The Governor of the Bank of Sierra Leone (BSL), the country’s central bank, is empowered by the Banking Act 2000 to “cause an examination to be made of each licensed institution [commercial bank] periodically or whenever in his judgment such examination is necessary or expedient, in order to determine whether the licensed institution is in a sound financial condition and that the requirements of this Act has been complied with in the administration of its affairs.” The BSL does receive returns from the commercial banks on a weekly, monthly and annual basis, and there is a team that does overall annual inspections of the commercial banks. There is also one tasked with monitoring activities like potential money laundering.¹⁰⁷

Cash Flows

Cross-border movement of cash dollars is commonplace in Sierra Leone. Marakas admit sending cash in this way to The Gambia. It is highly probable that most of the dollars moving in or out of the country is smuggled, given the predatory nature of border authorities who may take a “tip” for themselves. It is common practise for foreign exchange offices and “dollar boys” to sell leones at rates substantially below the official exchange rate for small bills, and above it for large bills, which are easier to transport.

Table 10: Dollar to Leone Exchange Rates

	The “Sierra Leone Forex Bureau”, Freetown	Dollar Boy, Freetown	Dollar Boy, Bo
\$100 x 1 = \$100	Le 295,000	Le 300,000	Le 305,000
\$50 x 2 = \$100	n/a	Le 290,000	n/a
\$20 x 5 = \$100	Le 280,000	Le 275,000	n/a
\$10 x 10 = \$100	Le 280,000	Le 270,000	n/a
\$5 x 20 = \$100	Le 280,000	n/a	n/a
\$1 x 100 = \$100	Le 200,000	Le 200,000	n/a

Profits & Investments

In the diamond areas it is hard to get credit to do anything other than mining. It is mostly Lebanese and Marakas who have money to invest, but they are reluctant to lend to Sierra Leoneans, because they cannot guarantee the loan. They tend to lend only to people of their own community where there are other avenues for debt collection. The ordinary Sierra Leonean in a diamond community who might wish to expand farming activities or establish a small business has extremely limited options.

Sierra Leonean diamond marketers do invest their profits in other enterprises but usually in other parts of Sierra Leone, principally in Freetown and non-diamond areas. Bajuko Kabba, for example, has a stake in an ice manufacturing plant in Freetown; he also wants to create a plantation in Lunsar, in the Northern Province. André Hope spoke of investing in crops for export in the Port Loko/Lungi area. Otherwise, dealers invest in complimentary businesses which they continue to run themselves. Many have shops selling clothes, mining equipment and electronics both as regular enterprises and as strategies for enticing miners to sell to them.

Even in Freetown, however, options for investment are limited, especially for those Sierra Leoneans who are not of indigenous African descent, because they do not enjoy the same rights as others. The issue of citizenship is extremely important to the Lebanese community. Members claim that if they were not discriminated against in this way the community would be more likely to invest in the country.¹⁰⁸ Given that the Lebanese are key economic players, changes could inject much-needed capital into non-diamond ventures.

This issue of citizenship ties in with one of the biggest impediments to growth in the diamond areas, and in the country more generally: capital flight. The diamond industry is currently the most important sector in the Sierra Leonean economy in terms of export value. Yet the people with the largest returns in the business are the dealers, and the majority of the dealers are Marakas and Lebanese, most of whom retain substantial personal and business interests outside Sierra Leone.

Capital flight will continue to be a problem for Sierra Leone as long as the issue of citizenship is not addressed and until the country addresses its competitiveness as a site for investment in relation to diamond marketers' current investment locations. Improving the investment environment for locals could also serve to attract international investors. The country has great potential for fisheries, agriculture, gold mining, and tourism, all of which could bring in foreign export earnings. But there are serious impediments to investment:¹⁰⁹

1. Sierra Leone is the most expensive place to register a business out of 145 locations worldwide;
2. Legal frameworks are contradictory and unclear;
3. Inconsistent and discretionary enforcement of the law makes for an unequal playing field between those who wish to operate legally and those who do not;
4. Inefficient land management systems, challenging land allocation procedures, and insecurity of tenure;
5. A lack of comprehensive and transparent planning;
6. Difficulties with the building permit process;
7. Lack of basic infrastructure, including water, electricity, telecommunications, roads;
8. The tax system seems to discriminate against foreign companies and individuals;
9. The tax system seems to discriminate against smaller companies vis-à-vis large companies;
10. Slow, cumbersome, opaque customs procedures makes importing and exporting difficult and expensive, acting as a disincentive to export-orientated value-adding (processing) industries;
11. Shortage of foreign exchange (though this is improving), and predation by customs officials of those declaring cash imports;
12. Pervasive corruption increases invisible costs and corporate risk.

Part Three

Conclusions and Recommendations

Conclusions

Diamond wealth does not benefit diamond labourers nearly as much as it might, nor does it lead to development in diamond communities, for the following reasons:

1. Local economic stagnation because of:
 - a) Capital flight (related to unattractive and an insecure investment environment, citizenship issues, and the greater portion of diamond profits accruing to individuals whose interests lie in other countries);
 - b) Homogenisation of the economy around the diamond industry;
 - c) Absence of credit opportunities for the pursuit of alternative and supplementary livelihoods in diamond areas;
 - d) Absence of NGOs, donor organizations and government bodies able and willing to promote alternative livelihood investments; and
 - e) Government's attitude to the industry generally, being to extract as much revenue as possible from it directly, rather than to use it as an engine to nurture other economic sectors and thus a larger, revenue base.

2. Frequent duping in the industry because:
 - a) The preferred system of payment in artisanal production allocates a *discretionary share* of diamond profits to diggers, dependent only upon their limited ability to negotiate a fair price;
 - b) There is a large disparity in the relative expertise of the negotiating parties, particularly between digger and miner, and miner and dealer;
 - c) In a chain where trust is so evasive, and yet so necessary, people are easily duped by those they come to trust;
 - d) The law is unequally applied and so people have limited avenues for seeking justice; this promotes dishonesty as a means of advancement; and
 - e) Difficulty in the valuation of speculative stones at the next point of sale and a lack of credible accounting leads buyers to push prices as low as possible in order to maximize profit.

3. Declining returns from artisanal operations because:
 - a) There is a lack of prospecting of potential sites;
 - b) Virgin lands tend to have deep gravel, which increases costs; and
 - c) Exhausted or unpayable land is re-licensed and re-mined.

Recommendations

Increasing revenues for diamond labourers and communities would significantly improve their quality of life. It could mean the difference between hunger and satiation. But increased income will not produce sustainable development if it is spent principally on services and goods provided by businesspeople who invest their own profits elsewhere. Increasing labourers' and mining communities' revenues is only the first step in bringing about development through diamonds. The next step is using that wealth to stimulate economic growth by converting diamond industry profits into other forms of *productive* capital, capital that promotes local economic diversification and increased productivity. This report shows that diggers' earnings and a wider basis for growth could be enhanced by making changes in the allocation of land, in the organisation and financing of production and in the mode of purchasing, and by promoting complementary and alternative livelihoods. Taxes should be levied at all areas of the value chain not just export duty from exporters. If everyone in the chain paid some form of tax then some of these taxes could be collected locally and used locally.

Land Allocation and Use – Increase Productivity

1. Enable miners to use the most appropriate technology for optimally mining their land;*

* For example, the Ministry of Mines is keen to establish a revolving loan fund for providing miners with equipment. Small equipment, such as pumps and washing plants, could be leased out on a daily basis. Larger gear, such as bulldozers and draglines, could be leased on a hire-purchase basis with miners paying 50% up front, and the remainder from mining proceeds. A similar venture was tried in the 1960s but was corrupted by political interests. The MMR believes this could be avoided by having the project managed by both the government and the financier. The principle risk is the reliability of miners as borrowers.

2. Make geological prospecting and proof of productivity a prerequisite for licences in areas that are non-replenishing and for land that has been mined for more than a standard number of years;
3. Convert land that is no longer economically viable for artisanal mining to other productive use;
4. Currently the US Geological Survey is assisting with geological surveys in Liberia. Such assistance to Sierra Leone would be greatly beneficial, helping miners to work land that is economically viable;¹¹⁰
5. Where land can still be mined *productively* small-scale mining companies should be given preference over artisans if it is agreed that a portion of the company's profits is meaningfully invested in the community;
6. Introduce regulations to withhold licences from anyone reporting zero returns, and from those who have not rehabilitated their mining plots;¹¹¹

Organisation and Financing of Production

7. Reduce the number of diggers – so that employers have to compete for labour – by creating alternative, attractive livelihood options and/or by establishing training courses that can give a mineworker advantageous qualification;
8. Establish model contracts for fully supported operations, and make them freely available at Ministry of Mines regional offices;
9. Discourage or prohibit the allocation of diamond profits to labourers in any way other than through an agreed, predetermined share of net profits;
10. Build the capacity and credibility of the United Mineworkers Union as protectors of labour and partners of business;^{*}
11. Encourage skilled mineworkers to work as contract labour with small-scale mining companies which have signed up to the UMU's minimum standards of employment, or make membership in the UMU compulsory for all companies wishing to explore, prospect or mine for diamonds (or any other mineral) in Sierra Leone;
12. Examine micro-credit and other projects in artisanal mining outside Sierra Leone (e.g. gold in South America), in order to build on experience that might be transferred to diamond production;
13. Encourage socially and environmentally responsible mining companies;[†]

^{*} DFID has been working with the UMU to develop contract mining that ensures minimal standards of employment for diamond labourers in terms of health and safety, returns (wage plus bonus), working hours, and other conditions of service, for both artisanal and small-scale mining ventures.

[†] Some companies are coming to Sierra Leone with the purpose of conducting socially responsible mining. One company, which has secured ten acres for artisanal and small-scale mining in the Lower Bambara region, says it plans to reinvest 50% of its gross revenues into local social development. While such

14. Continue to experiment with cooperative mining as a preferable model of production for ensuring best practice and optimal returns to labourers.

Alternative Modes of Purchasing

Investigate the feasibility of:

15. Provincial for-profit and not-for-profit multi-functional bourses. The Ghanaian bourse is a possible model;
16. Creating multi-functional diamond centres that could house a bourse, as well as facilities for banking, licensing, independent valuing, training, information dissemination, and other development-related activities;
17. Licensing industrial alluvial and small-scale mining companies to purchase a portion of their own production from artisanal mining operations, pegged at prices 10% below market value;
18. Diamond peddler licences as a strategy for formalising the small-time diamond dealers who comprise the *Open-Yai*, with special attention to assistance in formalizing money transfers in ways that avoid costs associated with corruption and rents.

Alternative and Complementary Livelihoods

Some people mine because it is their preferred option. Others do it because they have no alternative. With the desire to do something other than mining, however, comes the potential to diversify and strengthen the economies of diamond mining communities. It could also help to increase the range of viable occupations in mining communities, providing people with greater choice. It is strongly recommended, therefore, that the DDI lobby the relevant development NGOs and donors in order to promote the implementation of alternative and complementary livelihood projects in artisanal diamond mining communities, as a strategy for engendering development.

Other Recommendations

19. Development organizations interested in the long-term stability of Sierra Leone and its diamond areas should promote good governance through:
 - a) Training and building the capacity of government officials working in the diamond sector (for example, through Management System International's proposed provincial technical colleges);
 - b) Improving the capacity of the MMR to monitor and enforce the law in relation to diamond production and marketing, so that the regulatory environment is predictable and reliable;
 - c) Improving the proper and timely collection and dissemination of information and statistics; and

intentions are admirable, there is yet to be a small-scale diamond mining enterprise which has successfully implemented such a model in Sierra Leone.

- d) Holding government officials to account for corruption, malpractice and inefficiency.
- 20. Donors should support the efficient development and implementation of the planned cadastre system;
- 21. The government of Sierra Leone should place stricter controls on the allocation of dealing and exporting licences, and on the performance of licensees. Where it is not already being done, key performance indicators (KPIs) could be established by the Ministry e.g. minimum value export quotas on a quarterly or biannual or annual, basis;
- 22. The Gold and Diamond Department, perhaps with assistance from donors, should develop an electronic price book and make it publicly available;
- 23. The government should reconceptualize and redefine the principal role of the diamond sector from a revenue source to an engine of wider economic growth;¹¹²
- 24. The government should create an enabling investment environment that rewards people for investing outside of the diamond economy in diamond mining and marketing areas.

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Annex One

Terms of Reference – DDI Resource Flows Study

The consultant will carry out in-field research in Sierra Leone for up to three weeks, alongside a second consultant, in order to understand how rough diamond prices change from the diamond digger to export, looking at each step of the diamond chain in country. The research should aim to discover why prices change at each step, and where this system may be changeable in order to ensure that diamond diggers benefit more from the diamonds mined. The consultant, as team leader, will be responsible for analysing the information collected, and preparing a report based on the results of the research. A draft report should be submitted to the members of the Diamond Development Initiative no later than 17 February 2006. The DDI will undertake to provide feedback within one week of receipt, and the Consultant will prepare a final report by 28 February 2006.

Although much is known about diggers and exporters, not much is known about the intermediary diamond economy. The study aims for a better understanding about how revenues might be reallocated to the digger community. In summary, the aim of the study is to enhance human security in artisanal diamond mining areas, contributing to making artisanal mining, the dominant mode of diamond production in several African countries, less conflict-prone and at the same time more efficient and beneficial to the miners, to the regions and to the countries in which they work.

Specifically, the study will

1. Focus on the chain between digger and export;
2. Clarify the role and returns to the middle layer and identify areas where the middle layer is vulnerable to change;
3. Evaluate the role of tax structures;
4. Examine both legal and illegal paths;
5. Determine how to engage more formal revenue sources – banks, cooperatives, development assistance – in the buying and selling of diamonds;
6. Develop a clear picture of the revenue return to diggers and consider how this might be enhanced in ways that contribute to meaningful community development.

Areas for Consideration

1. The influence of fees, taxes and reporting requirements on prices obtained at various levels in the chain;
2. The influence of digger-sponsor arrangements (credit cycle, lending procedures, credit terms), with special consideration to inefficiencies in the system;
3. The influence of currency (leones versus dollars) on prices obtained at various levels;
4. The influence and/or potential of local communities on mining arrangements and prices (e.g. the influence of the Diamond Area Community Development Fund);

5. The influence of non-diamond business on diamond prices, i.e. the use of diamonds as an alternative to hard currency in order to:
 - a) Hide profits;
 - b) Export profits and/or capital;
 - c) Finance imports for alternative businesses.

6. Differences in the prices paid at different levels of the chain for high value goods versus low value goods.

The consultant will gather views from diggers, holders of miners, dealers and export licences, determining where possible differences in pricing between Sierra Leoneans and those of Middle-Eastern extraction, and others. Where possible the team will also gather information from actors outside the formal sector (e.g. marakas and others). The team will also meet with representatives of government, PDA, USAID, DFID and the World Bank to gather views, "lessons learned" and information relevant to the study.

The consultant will make recommendations regarding ways that returns to diggers might be improved, including the potential and risks involved in expanding the cooperative approach or other credit schemes.

The report should be written in a clear, concise and comprehensible manner and should be well-referenced. The consultant will need to provide the evidence and key sources to support information and conclusions made, where appropriate, and explain how these sources are reliable and know the information obtained. The consultant should obtain documentary evidence wherever possible

Annex Two

List of Interviews

Freetown

1. Jan Ketelaar, Department for International Development (DFID), UK
2. Frank Karefa-Smart, Diamond Consultant, Integrated Diamond Management Program
3. Usman Kamara, Deputy Director, Ministry of Mineral Resources (MMR)
4. Andrew Keili, Chairman of National Social Security and Insurance Trust (NASSIT)
5. Mustapha Turay, Independent Diamond Valuator, Gold and Diamond Department (GDD)
6. Ernest J. Tucker, Deputy Commissioner, GDD
7. Hisham Mackie, Lebanese Diamond Exporter
8. Tani Pratt, SL Minerals & CEMMATS
9. Joe Demby, Gendema Mining Company
10. Mark White, DFID, UK
11. Lawrence Myers, General Manager, GDD,
12. Samirr Hassaniyeh, Chairman, Lebanese Community (Western Area)
13. Dr. Peter Tucker, Chairman, Law Reform Commission
14. Mr. Mohamed Timbo, Official, Law Reform Commission
15. André Hope, Lawyer & former Diamond Exporter, Sierra Leonean
16. Kassim Basma, Lebanese Exporter and Chairman of Lebanese Community, Eastern District
17. Imad Basma, Purchasing Agent
18. John Kanu, Integrated Diamond Management Program
19. Femi Kamara, Senior Mines Engineer, MMR
20. Akinola George-Taylor, Managing Director, Guaranty Trust Bank
21. Two brothers, diamond and gold miners
22. Bajuko Kabba, Maraka Dealer
23. Hadji Kabba, Maraka Dealer's Agent or Purchasing Agent
24. Ezekiel Dyke, Secretary General, United Mineworkers Union
25. Andrina Coker, Director of Research, Bank of Sierra Leone
26. Mr. Dominic Mansaray, Assistant Director of Banking Supervision, Bank of Sierra Leone
27. Jethroe Buttner, Database Architect of the Cadastre System, UNDP
28. Hasiatu Agbajie, Manager (Credit Department) Guaranty Trust Bank
29. Joseph Tucker, Research, Bank of Sierra Leone
30. Abu Brima, Network Movement for Justice and Development

Kono District

1. Paul Temple, Team Leader, Integrated Diamond Management Program, Management Systems International
2. Jonathan Sharkah, Mines Engineer, MMR
3. Sam Denby, MMO, Area B
4. Khalilah Kabbah, Assistant MMO, Area A
5. Mr. Lakoh, Senior MMO
6. Dan Joe Hadji, Mines Monitoring Officer, MMR
7. Sylvester Bangah, Journalist, New Citizen
8. Brian Thomas, Manager, Rokel Bank
9. Prince Saquee, Sierra Leonean Dealer and Chairman of the Kono Dealers' Association
10. Chief Arouna Saffia of Bandafayie

11. Amienatta Conteh, Chairwoman, Braveheart Mining Cooperative
12. Joseph & Riyadh, Lebanese supermarket owners
13. Chief Fengai Kaimachiendeh Paramount Chief, Gbense chiefdom
14. Samba Sambally, Maraka Dealer
15. Ousman Wadda, Maraka coxer
16. Ezzidine Ezzidine, Lebanese Dealer
17. Fadiy Hamden, Vice-Chairman of Lebanese Community, Eastern District, and Supporter
18. Alex Kalloko, Miner
19. Gibriel, Braveheart Mine foreman
20. Fawaz Fawaz, Lebanese Dealer
21. Lena Fawaz, Lebanese Dealer's Agent
22. Sahr Meusa Kassegbama, Dealer's agent, Sierra Leonean
23. Saikou Touray, Dealer, Maraka
24. Ansumana Babar Turay, Integrated Diamond Management Program Kono Coordinator, Management Systems International
25. Mr. Jalloh, Fullah Dealer
26. Mr. Ibrahim Jalloh, MMO

Bo District

1. Mayor S. Sannoh, Bo Mayor
2. Alphonso Pratt, Manager, Rokel Commercial Bank
3. Mohamed Jabbie, Manager, GTB, Bo Branch
4. Alhaji Bakusa Kamara, Maraka dealer and chief
5. Maamu Sillah, Maraka dealer
6. Alhaji Osman Barrie, Fullah dealer and Chairman of African Dealers, Bo
7. Rodney Michael, Lebanese ex-dealer and businessman
8. F. Mugbe Bassie, Senior Mines Monitoring Officer
9. Abdul Kargbo, Mines Monitoring Officer
10. Musa Abdulai, Mines Warden
11. *Open-Yai* members
12. Edward Garnem, former illicit dealer

Kenema District (incl. Tongo)

1. A. M. Turay, Mining Area Superintendent
2. I. S. Barrie, Mining Engineer
3. Abdul Sandy, Senior Mines Monitoring Officer
4. S.L. Vandy, Mines Monitoring Officer, Tongo
5. Isaac Modu-Bell, Mines Monitoring Officer, Tongo
6. Foday Moiwai, Diamond Miner & Supporter
7. Francis Konuwa, Exporter's Agent
8. John B. Sankoh, Vice Chairman, Sierra Leone Indigenous Miners Movement (SLIMM), Miner (SLIMM)
9. Morlai Kamara, Network Movement for Justice and Development
11. Sheku Bangura, lawyer
12. Andrew Ansu Fatorma, Councillor, Lower Bambara, Tongo
13. *Open-Yai* members
14. Illicit dealers

Other

1. Wade Watson, PRIDE Diamonds LLC, USA
2. Frans Voss, Diamond Manufacturer, South Africa

NOTES

¹ Levin 2005, 2006, Temple et al. 2005, Moyers 2003, DFID 2003, Even-Zohar 2003, Gberie 2003, MSI 2004, Partnership Africa Canada & Global Witness 2004a.

² Gberie 2002; Fithen 1997. See also Smillie 2005; Even-Zohar 2005.

³ Milestone is the parent company

⁴ Interview with Ezekiel Dyke, 8th January 2006 and with Wade Watson, 10th January 2006. The Ministry was not able to give us information on how many small-scale mining licences had been granted, and what acreage they were mining, but the other companies understood to be mining – or prospecting to mine – alluvial diamonds using either small-scale or industrial methods include, Advanced Industrial Minerals Ltd., Argyll Resources Corporation, Axim (SL) Ltd., C.P.A. Resources Ltd., G.M. Bassama Mining Company, Grigsby Exploration Inc., K B Mining, Majestic Mining (SL) Ltd., Resources Securities Ltd., Sierra Leone Diamond Ltd., and PRIDE Diamonds Ltd.. Any product of these operations will have exported through the country's licensed exporters, under special dispensation by the GDD, or may have been taken out of the country illegally. A number of these companies are believed to be scams for raising funds on international stock markets. Various interviewees claimed several were not "serious".

⁵ The number of artisanal diamond licences allocated in Kono fell by 18% in 2005: from 1119 to 917. This fall in licensing is attributed to i.) heavy rains at the very start of the year made 2005 an expensive and risky year for mining; ii.) exporters reduced their support owing to the August/September announcement of significant back-taxes (see section two on administrative costs), iii.) supporters were generally reticent for fear of high costs owing to the rains and the reduction in the number of shallow, productive land, and iv.) the licensing fees doubled in 2005 (though the increase was equivalent to just over \$100 so may not have been too influential).

⁶ Hall 1968.

⁷ The cadastre system is intended as a land registry which will provide the basis for effectively administering and enforcing mineral rights. Even-Zohar and Management Systems International have estimated that production may be valued at as much as \$400m per annum. Based on historical production and contemporary figures, this is decidedly optimistic as caratage would need to approach about 180,000 carats, which is about peak production historically and about double what is being produced today. A more realistic estimate would be in the region of \$200–250million, or 100,000 to 125,000 carats.

⁸ Overviews of the different modes of organisation of artisanal production are given in Levin (2005a & b), Temple et al. 2005, and PAC and Global Witness (2004).

⁹ Interview with Ezekiel Dyke, 8th February 2006.

¹⁰ Structure of the Industry Workshop, 24th July 2004.

¹¹ Stealing, or more particularly the fear of stealing, is common in the artisanal sector; one Maraka trader in Bo (actually the Maraka chief, Alhaji Bakusa Kamara), who is a licensed dealer and supports over two dozen licenses across the country, says that as a result of the fear of diamond theft he would have as many as 30 "managers" (or overseers), all Marakas, for 10 acres of mining area. Other strategies for preventing theft include hiring local labourers (who have a greater stake in remaining in the community), and using machines for washing.

¹² See Levin 2005, p. 76.

¹³ In this scenario he benefits from the tenant's labourers doing the most laborious part of the work (removing the overburden), whilst still getting access to, say 50% of the gravel he would otherwise have had to leave buried.

¹⁴ Illegal miners with access to licence-holders also sell illegally mined diamonds in this way.

¹⁵ Note that the Government's position is that it is more important that illegally mined and dealt diamonds are exported legally than those who mine or deal illegally are prosecuted.

¹⁶ For more on the rationale of illegal mining, see Levin 2005a, chapter 5, or 2005b.

¹⁷ See Levin 2005.

¹⁸ MSI 2004.

¹⁹ Interviews with Jan Ketelaar, Usman Kamara, John Kanu, Ansumana Babar Turay, Frank Karefa-Smart, Paul Temple, Amienatta Conteh.

²⁰ John Kanu suggested that had the loans been managed on an *osusu* basis, then the cooperative members would have better understood their obligations. *Osusu* is a local system of credit provision wherein a group of people pool their money together on a regular basis. Each time they meet, one person is given the entirety of the funds for that time. This system injects capital into households who then use it to generate income, from which they can contribute to the fund in the future.

²¹ Zack-Williams 1995: 147-154

²² Interviews with Akinola George-Taylor of Guaranty Trust Bank and Brian Thomas of Rokel Bank (Koidu).

²³ The regulations now state that financiers can sponsor artisanal mining operations without having to become a diamond exporter or dealer, although the financier is not legally allowed to handle the diamonds. Whilst it is now possible for an investor to support mining activities purely for a share in the profits rather than for ownership of the diamonds, it is deemed unlikely that people would choose to do so. Ketelaar 2005, p. 6; interview with Femi I. Kamara, 6th February 2006.

²⁴ The Lebanese have their own dealers association. Members of the ADA claim that they formed their own association having been excluded by the Lebanese.

²⁵ Interview in Bo, January 2006. A former illicit diamond dealer in Bo, a Lebanese man, told the Study Team how he bought a faultless seven carat diamond from two diggers, who had evidently stolen it, for less than \$400. He sold the stone the same day for four times that amount. Because he was also inexperienced and was operating illegally, he claims he was cheated by the older Lebanese he sold the diamond to: he believes that the diamond was sold for tens of thousands of dollars.

²⁶ Moyers 2003, MSI 2004

²⁷ Interview 18, 14th July 2004.

²⁸ *Ibid.*

²⁹ Interview with Kono licensed dealer, 3rd August 2004, and interview 22, 16th July 2004.

³⁰ Interview with Saikou Touray, 29th January 2006.

³¹ Interviews with André Hope, 24th January 2006, and Sahr Meusa Kassegbama, 29th January 2006.

³² Interview with Kassim Basma, 4th February 2006. The Secretary General of the United Mineworkers' Union has tried on several occasions to speak to Mr. Basma about joining the Union and thus assuring his workers of minimum labour standards, but Mr. Basma has not been forthcoming. Interview with Ezekiel Dyke, 8th February 2006.

³³ Based on workshop on Structure of the Mining Industry 24th July 2004.

³⁴ Based on information given at Structure of the Mining Industry Workshop, 24th July 2004. Exchange rate based on August 2004: \$1=Le2650.

³⁵ Now \$1200 for 8 hours. See UMU 2005: 6.

³⁶ Interview with Kassim Basma, 4th February 2006.

³⁷ Government of Sierra Leone, *Policy Measures*, February 2005.

³⁸ This is an example of the poor communication which exists within the Ministry of Mineral Resources. These gentlemen's offices are next to each other.

³⁹ Interview with Jan Ketelaar, 20th January 2006.

⁴⁰ A number of studies have been done on diamond marketing in Sierra Leone, principally for the benefit of the Law Reform Commission. See Ketelaar 2005, Ketelaar and Koroma 2005, Even-Zohar 2005, Marriott 2005, Hope 2005

⁴¹ Interviews with Samba Sambally, 28th January 2006, Kassim Basma 4th February 2006, Bajuko Kabba, 8th February 2006. Experienced dealers are confident that they can identify rough diamonds from within the various parts of Sierra Leone, as well as from outside the country.

⁴² Interview with Jan Ketelaar, 20th January 2006.

⁴³ Adapted from a table by John Kanu.

⁴⁴ Ñikoñiko is Madingo, banabana is Maraka and "jewellerman" is Krio. These words are used interchangeably.

⁴⁵ Interview with Licensed Maraka Dealer and his ñikoñiko, 28th January 2006. NB that after outlining the chiefdoms which are designated Artisanal and Small-scale Mining Areas, the 2005 Policy Measures states in Parts 4(c) and 4(d):

"Only people of Sierra Leonean origin and nationality are permitted to reside in the above declared small-scale and artisanal mining areas and participate in mining and/or marketing of precious minerals. All other nationals shall relocate to Freetown and the other

designated areas in the Provinces if they wish to participate in the marketing of precious minerals under the Small-Scale and Artisanal Mining Provisions of the Mines and Minerals Act.”

Only Sierra Leoneans who are indigenous Africans can therefore go to the Mining areas with the intention of buying diamonds, thus excluding the Lebanese and other “foreign” Sierra Leoneans from competing for the diamonds in the bush.

⁴⁶ Interview with Ezzidine Ezzidine, 28th January 2006.

⁴⁷ Interview with Kassim Basma, 4th February 2006.

⁴⁸ Interview with an international buyer, 2nd August 2004. The government more or less turns a blind eye to this because it is more important for stones to be exported legally (and thus subject to taxes) than to prevent illegal dealing. Interviews with MMOs.

⁴⁹ One such negotiation was witnessed in August 2004. The dealer noted that this type of dealing was commonplace.

⁵⁰ Interviews with Amienatta Conteh, 5th August, 2004, Chairman of the Kono Dealers’ Association, 24th June 2004, Hisham Mackie, 23rd January 2006.

⁵¹ Such as Mr. Jalloh, a Fullah dealer interviewed on 30th January 2006. The Kono Dealers’ Association (KDA) and Mines Monitoring Officers put pressure on members, who they feel have sufficient capital and knowledge, to get themselves licences. Interview with the Chairman of the Kono Dealers’ Association, 24th June 2004, and interview with Mines Monitoring Officer, 12th July 2004.

⁵² Interview with the Chairman of the Kono Dealers’ Association, 24th June 2004.

⁵³ One dealer referred to them as his “office boys”. Interview with Saikou Touray, 29th January 2006.

⁵⁴ Interview with Kassim Basma, 4th February 2006.

⁵⁵ One exporter told the Study Team that he pays his coaxers \$200 a month.

⁵⁶ Note that there are Chinese and Indian communities in Sierra Leone, both of which have members who allegedly also deal in diamonds.

⁵⁷ People mine illegally when they are either incapable of joining formal operations or when they are above the law. See Levin 2005, chapter 5 and 2006.

⁵⁸ Interview with Kassim Basma, 4th February 2006.

⁵⁹ One Sierra Leonean who had previously been an exporter told us how most of his business had come from the Lebanese, who would come with \$200-\$300,000 of business at a time, whereas the Africans would bring him just \$60-120,000. Other Sierra Leoneans, however, rarely came to him with significant business at one time, probably between \$60-80,000. Interview with André Hope, 4th February 2006.

⁶⁰ Interview with André Hope, 4th February 2006.

⁶¹ Interview with Bajuko Kabba, 8th February 2006.

⁶² Kassim Basma claimed that it was he who coined this phrase. Interview with Kassim Basma, 4th February 2006.

⁶³ Interview with Jonathan Sharkah, 26th January 2006. See also FIAS 2005.

⁶⁴ All exporters but Hisham Mackie do this, according to the National Revenue Authority’s Gold and Diamond Department which monitors and certifies all legal exports, although Kassim Basma says that he does not do this.

⁶⁵ Mustapha Turay and Ernest Tucker of the GDD claimed that they were occasionally surprised at the “crappy diamonds” that people will export.

⁶⁶ Global Witness 2003.

⁶⁷ It is clear that these people facilitate the fly-by-nights because of the money it brings them. They may also be motivated by ideology, but this has not been investigated.

⁶⁸ Diamond reserves are not finite, and it is reasonable to expect a drop in production figures after nearly two decades of intensive mining. The 2005 official export figures would indicate, therefore, that smuggling has been considerably minimized, since they are more or less in tune with the more realistic historical trend of the 1970s.

⁶⁹ The Revolutionary United Front (RUF) guerrillas took over most of the diamond fields, helping to create the phenomenon known as “conflict diamonds”.

⁷⁰ Graph adapted from Le Billon 2006 and Davies 2002 using Saylor 1967, Van der Laan 1965: 60, IMF 1970: 13 and 1972, 1993, 2001, Deen n.d., Hoge Raad voor Diamant 1998, Smillie, Gberie & Hazelton 2000, The World Bank 1994, and Zack-Williams 1995. The graph does not illustrate “semi-official” diamond exports during the 1970s and 1980s, undertaken with government collusion in return for massive kickbacks to senior politicians. These would essentially even out the drop between 1978 and 1992, although there are no records of these transactions.

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- ⁷¹ GDD Official Statistics provided by Ernest Tucker.
- ⁷² Interviews with Lawrence Ndola Myers, 23rd January 2006, Ernest Tucker, 6th February 2006, Hisham Mackie, 23rd January 2006, and Kassim Basma, 4th February 2006.
- ⁷³ GDD Official Statistics provided by Ernest Tucker.
- ⁷⁴ Some asked the researchers if they knew of anyone interested in funding them.
- ⁷⁵ Interview with Mustapha Turay and Ernest Tucker, 23rd January 2006.
- ⁷⁶ Interview with Jan Ketelaar and Frank Karefa-Smart, 20th January 2006.
- ⁷⁷ Interviews with Kassim Basma, 4th February 2006 and Hisham Mackie, 23rd January 2006.
- ⁷⁸ Interview with Kassim Basma, 4th February 2006.
- ⁷⁹ Being those exporting more than \$1m of diamonds in the year.
- ⁸⁰ Based on MMR dealing licence figures for 2004 and February to July 2005, inclusive. (licences issued Feb-July 2004 were equivalent to 70% of total licences for the year. Licences issued Feb-July 2005 were 102. If this is 70% of total for the year, then 2005's total should have been 152.)
- ⁸¹ Based on the same method of calculation.
- ⁸² 50 diggers per acre x 2400 licensed miners is 120,000 diggers.
- ⁸³ In Sierra Leone, licenses are seen primarily as a means of generating revenue, rather than as tools for ensuring basic standards in the production of goods or the delivery of services. See also FIAS 2005.
- ⁸⁴ See Schedule 1 of the "Details of Policy Measures Relating to Small Scale and Artisanal Mining and Marketing of Precious Minerals". Government of Sierra Leone, February 2005. Thanks also to Tani Pratt of CEMMATS Group Ltd.
- ⁸⁵ This is actually an export duty, not a royalty. See Ketelaar 2005: 8.
- ⁸⁶ Interviews with Jonathan Sharkah, 26th January 2006, and Alex Kalloko (licence-holder), 29th January 2006.
- ⁸⁷ Based on assumption that dealers purchase at 60% of international market value (based on calculations in Table 6), 5% of 60% of \$141 million is \$4.2million. On artisanal exports only it would have been \$3.5 million.
- ⁸⁸ Interviews with Jan Ketelaar, Jonathan Sharkah, Femi Kamara.
- ⁸⁹ FIAS 2005: 97.
- ⁹⁰ Income Tax Act of 2000, Sixth Schedule (4).
- ⁹¹ FIAS 2005: 98.
- ⁹² Income Tax Act of 2000 (First Schedule), and Tani Pratt 2005.
- ⁹³ Interviews with Hisham Mackie, Kassim Basma, and Andre Hope.
- ⁹⁴ Interview with Hisham Mackie, 23rd January 2006.
- ⁹⁵ Telephone conversation with Kassim Basma, 9th February 2006.
- ⁹⁶ Mrs. Fawaz claimed that Koidu was so dead economically that nothing was selling in her shop.
- ⁹⁷ Kassim Basma also claimed that people preferred to sell for dollars as they are easier to carry. Both Basma and Kabba are based in Freetown where miners can have greater anonymity when exchanging dollars for leones.
- ⁹⁸ The Guaranty Trust Bank is deemed to be more reliable on this point, though not perfect.
- ⁹⁹ During his time as a diamond exporter in 2003 and 2004, André Hope had an arrangement with Leocem, the national cement manufacturer, to exchange dollars and Leones in this way. Kassim Basma, however, claimed he no longer did such exchanges because the Banks now make it difficult to do so.
- ¹⁰⁰ Obviously this is also a means of keeping the authorities on the side of the West Africans. (The Five Country Committee comprises nationals of Nigeria, Gambia, Mali, Senegal and Niger.)
- ¹⁰¹ Interview with Kassim Basma, 4th February 2006.
- ¹⁰² One dealer told the Study Team that he paid \$500 (about 20% of the licence cost) to people who could "facilitate" his getting a dealer's licence. He believed this was necessary in order to get his licence quickly.
- ¹⁰³ The UTB also handles Western Union transactions; about \$100,000 passes through the UTB a month in the form of money transfers.
- ¹⁰⁴ Interview with Hasiatu G. Agbajie, Manager (Credit Department) Union Trust Bank, Freetown, February 2006. The issue of land and property laws in Sierra Leone is further complicated by Sierra Leone's antiquated citizenship laws, which are now under review by the Law Reform Commission. Non-citizens, including Lebanese who were born in the country, cannot own land or real estate; these can only be leased to them.
- ¹⁰⁵ Interview with Mr. Jabbie, Manager, Guaranty Trust Bank, Bo Branch, January 2006). The GTB also handles Moneygram money transfers.
- ¹⁰⁶ Interview with Aknola George-Taylor, 6th February 2006.
- ¹⁰⁷ Interview with BSL official/researcher Joseph Tucker and Dominic Mansaray, Assistant Director of Banking, Freetown, February 2006.

¹⁰⁸ Interviews with Samir Hassaniyeh, Fadiy Hamden, Hisham Mackie, Kassim Basma, Ezzidine Ezzidine, Fawaz and Lena Fawaz.

¹⁰⁹ FIAS 2005.

¹¹⁰ It is impossible to get an accurate estimate of diamond production in Sierra Leone, which is something that the cadastre system (a land registry designed to effectively administer and enforce mineral rights) is attempting to remediate. Total production, including smuggled goods, is likely in the region of \$200–250million.

¹¹¹ Ketelaar 2005: 29.

¹¹² Cf. World Bank 2005.