FROM THE AMERICAN PEOPLE

Memorandum of the proceedings of the think tank small group exercise that followed the presentation of the report titled:
"Feasibility of Direct Marketing of Artisanal Diamonds from Liberia and CAR to the USA"

Department of State
Washington, DC
October 12, 2011

The event was funded through a joint State Department and USAID initiative called the Property Rights and Artisanal Diamond Development (PRADD) project. PRADD works with mining communities and the governments of the Central African Republic and Liberia to increase the amount of alluvial diamonds entering the formal chain of custody while improving the benefits accruing to mining communities. Under the PRADD project USAID and the State Department commissioned a study of the feasibility of direct supply chains of diamonds from Liberia and CAR to US buyers. The event was intended to present the study to representatives from the diamond industry and NGOs involved in issues related to artisanal diamond mining. Other groups were invited to make presentations as well.

The hope was to catalyze the formation of a type of public-private partnership dedicated to developing and growing direct marketing opportunities that would (a) materially increase the benefits to the diamond mining sector in Liberia and/or CAR and (b) materially advance the commercial interests of the diamond industry.

This memorandum of the proceedings is primarily a summary of the discussions that came out of the small group exercise that followed the presentations.

The event took place under the following agenda:

9:00-9:15	Welcoming remarks by Susan Page, Deputy Assistant Secretary of State for African Affairs, and by Timothy Fella, Land Tenure Division, USAID.
9:00-9:30	Introductions and ground rules
9:30-10:30	Presentation – Estelle Levin and Stephen Van Bockstael
10:30-10:45	BREAK
10:45-11:15	Conclusions – Estelle Levin and Steven Van Bockstael
11:15-11:30	Questions for clarification
11:30-12:45	Presentations

Greg Valerio (from US Embassy - London)
ARM
DDI
Fairtrade.org
Rapaport, Inc. (video)

1:00-2:00	LUNCH (Main State)
2:00-3:15	Think tank discussions
3:15-4:00	Think tank groups report out
4:00-4:30	Follow-up questions
4:30-4:45	Concluding remarks

The think tank exercise asked two questions:

- Based on what was presented, what types of supply chains are most feasible and commercially viable?
- Looking at these supply chains, do you have any reservations?

The exercise divided participants into three "think tanks" or groups. One group was tasked with developing a supply chain of diamonds from CAR and/or Liberia from the **buyer's** perspective. The second group was tasked with developing a model for the direct sale of diamonds from CAR and/or Liberia to buyers from North America from the **seller's** perspective. The third group was tasked with developing a **branding** strategy for directly-marketed diamonds from CAR and/or Liberia.

The following are summaries of the discussions resulting from the exercise.

Group 1: Commercial buyers

Group 1 was tasked with developing a model supply chain of diamonds from CAR and/or Liberia from the buyer's perspective. Group 1 looked at a number of different scenarios and structures and tried to balance the interests of manufacturers and retailers. The group settled on a dual cooperative model whereby a syndicate of buyers would engage with a cooperative of miners. The model could be scaled depending on success.

- The syndicate of buyers would include a variety of US companies [and potentially Canadian companies as well] that would as a first step collectively finance the cooperative of miners to enable increased production. The operating assumption would be that the cooperative of miners would work within acceptable standards of environmental and social responsibility.
- The role of USAID through the existing PRADD project would be to assure that the miners are working as a group and all money coming in and all diamonds going out are handled by the group, and not by individual members (miners). Specifically, USAID would

    - Assist the cooperative of miners to develop adequate internal controls governing financial management and operations and a code of ethics assuring standards of social and environmental responsibility, including land rehabilitation, thereby meeting corporate social responsibility concerns.
    - Assist in building the trust – a business relationship – between the syndicate of buyers and the cooperative, thereby meeting the syndicate's need for warranties.
- The role of the State Department (the embassy) would be to help the syndicate make the necessary contacts and reach key agreements with the appropriate host country ministries.

The US syndicate would then buy the production of the mining cooperative [which would be expected to repay any pre-financed loan.] This transaction would require a mechanism to establish fair market value, so that the miners would benefit more than they do under current supply chain arrangements.

Once the US syndicate had purchased the merchandise, the merchandise could be handled in several different ways. It could be handled entirely by the syndicate and profits would be divided among the investors. Or the rough stone merchandise could be distributed by the investors, then the polished stones could be aggregated back, sold, and the profits divided among the investors. A third scenario in the case of merchandise that wasn't conducive to manufacturing in the US [NAFTA?] environment would be to sell outside.

Under all the scenarios the diamonds would be bought by US [NAFTA?] members of the syndicate, and risk within the syndicate would be shared.

Group 2: Commercial sellers

Group 2 was tasked with developing a model for the direct sale of diamonds from CAR and/or Liberia to buyers from North America from the seller's perspective. Group 2 considered the auction model, which is proposed as being more beneficial to miners. Group 2 agreed there was greater transparency in this model, which would make a small amount of goods available to [potentially] a lot of buyers. In the short term this could bring a high price for goods that might in turn command a higher sale price in the artisanal jewelry market. However, questions of security, especially concerning larger stones, cash flow and transportation would involve costs that were difficult to calculate, and might be so high as to make this option commercially unfeasible. However, auctions held at the national level in the capital city potentially could overcome some of these concerns.

Group 2 recommended that a joint venture between a cooperative of miners that sold diamonds and a buying group that would facilitate the sales would be the best way for miners to deal with the market. Group 2 then turned to the existing supply chain, which has access to capital, manufacturing, market and retail outlets, and began thinking along the same lines as Group 1, the commercial buyers. As a caveat about the buyers, Group 2 noted that the report talked of retailers going directly to miners. Group 2 rejected that option. Retailers have businesses to run; they're not NGOs. They look to existing supply chains for their merchandise.

Comments by Group 2 on the Group 1 task:
In making comments on the task of the commercial buyers, Group 2 began by raising the experience of the existing fair trade/fair mined gold supply chain. This supply chain is

fragmented because the initiative needed more time and perhaps was launched too early. Retailers need reliable supply. This is essential. If supply is not reliable, this is a serious problem for retailers.

Group 2 turned to policy questions. If a model of direct marketing was to work and create jobs in the US market, the diamond industry could then lobby lawmakers and State Department and make an argument for expansion of the model. This question intersected with

- The low-profit limited liability company (L3C) model that has been created in the US to bridge the gap between non-profit and for-profit investing by providing a structure that facilitates investments in socially beneficial, for-profit ventures while simplifying tax compliance.
- The benefit corporation (B corp), a new class of corporation in several states in the US that are required by law to create general benefit for society as well as for shareholders. Benefit corporations must
    - create a material positive impact on society
    - consider how decisions affect employees, community and the environment
    - publicly report their social and environmental performance using established third-party standards

Group 2 concluded its discussion about the Group 1 syndicate of buyers by discussing low-profit limited liability companies and/or benefit corporations who could hire unemployed people and teach them a skilled job. This secondary benefit would make the direct marketing supply chain more attractive to policymakers. The recommendation in setting up a feasible and commercially viable supply chain of artisanal diamonds was to consider taking advantage of these existing tax incentives and legal structures in the US.

Group 3 – branding

Group 3 was tasked with developing a branding strategy for directly-marketed diamonds from CAR and/or Liberia. Group 3 brought a strong retail perspective to the exercise – from the small boutique to the very large retail outlet, with different consumer audiences and different needs and messages. Group 3 was very consumer focused in addressing the needs that would have to be met in developing a feasible and commercially viable supply chain. Before a branding strategy could be developed three sets of information needs would have to be met.

- Understanding the consumer baseline. This would require research on consumer demand for this type of product. The research would probe what consumers understand about categories such as “artisanal,” “artisanal+,” and even “ethical”, which itself has different categories.
- Making the business case. How could the business case can be made to retailers? What is the scale of supply of this product? Would marketing the product as ethically sourced or artisanally sourced affect the bottom line? In what ways?
- Supply. Supply can be an opportunity or a liability depending on the size of the retailer. For smaller retailers, a pilot approach with small supply might be sufficient. But for larger retailers small amounts of supply would be a liability. Therefore, it will be important to know the expected supply.

Once the three sets of information needs are addressed, it will be possible to get to branding. Group 3 had conversations about “do no harm” vs. “doing good”. The primary message from jewelers has to be very positive; jewelers sell love, romance and appreciation. Although all jewelers strive to avoid selling “bad stuff”, retailers will not necessarily want to market diamonds under a “do no harm” brand. “Artisanal+” is not necessarily going to be the leading story. To have the best chance, any ethical supply has to fit in with existing ethical brands. Any artisanal brand must fit within existing retail strategies.

Group 3 turned to discussions of brands in the world of Liberia and CAR. Strictly speaking, this would not be a branding exercise in the sense that Pepsi and Coke are brands. The product might be marketed under the name of a program such as Love Earth or on a website like brilliantearth.com. Group 3 grappled with the question of taking the supply chain and finding a way to incorporate it into and strengthen existing store brands. How could the work that’s being done on behalf of foreign governments and foreign private industries strengthen existing store brands? Would it be through adding to store assortments?

Group 3 noted certain points of convergence around

- Common standards and methods of verifying those standards. Group 3 acknowledged the raised awareness and level of commitment and action on the part of businesses to demonstrate responsible behavior that is rewarded by business partners and consumers.
- Knowledge that it doesn’t make business sense to reinvent the wheel in driving people towards centers of excellence within the industry with respect to the desired behavior and practices. There are clusters of demand where expectations have been defined and are uniform. If somehow artisanal diamonds from CAR and Liberia could fit into RJC, DDS and ARM, then marketing them would be relatively easier.
- Some kind of verification of the standards would be required. How would USAID’s PRADD project tackle the question of independent verification of compliance with agreed standards?

Wrapping up

Brad Brooks-Rubin, the Department of State Special Advisor on Conflict Diamonds, and Tim Fella of the Land Tenure Division of USAID gave concluding remarks. Participants seemed generally to have felt the event was a useful one, and several expressed the hope that it would be followed up with steps to take concrete action toward establishing a commercially viable pilot supply chain of artisanal diamonds from CAR and Liberia.