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PROPERTY RIGHTS AND ARTISANAL DIAMOND DEVELOPMENT (PRADD)

SUPPLY CHAIN VISIT TO THE CENTRAL AFRICAN
REPUBLIC (21-29 MARCH 2012)



AUGUST 2012

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ACRONYMS AND ABBREVIATIONS

BECDOR	<i>Bureau d'Evaluation et de Control de Diamant et d'Or</i>
CAR	Central African Republic
COP	Chief of Party
DDI	Diamond Development Initiative International
GDA	Global Development Alliance
MM	Ministry of Mines
NGO	Non-governmental organization
PPP	Public-Private Partnership
PRADD	Property Rights and Artisanal Diamond Development
UK	United Kingdom
UN	United Nations
UNCMCA	National Union of Mining Cooperatives
USAID	United States Agency for International Development

1.0 INTRODUCTION

In March 2012, two representatives of the US government (Timothy Fella from USAID and JJ Harder from State Department) and four representatives of the North American diamond industry (manufacturers Ronnie VanderLinden and Jeffrey Fischer, and jewelers Kevin and Genevieve Hume) undertook an exploratory mission to the Central African Republic (CAR) to determine under which conditions, and with what caveats a direct supply chain linking Central African artisanal diamond miners with North American buyers could be established. The mission was also to inform all national stakeholders including the Ministry of Mines (MM) of this prospective initiative in the most transparent way. The US Embassy and USAID-funded Property Rights and Artisanal Diamond Development (PRADD) project, operating in CAR since 2007, organized the mission with a supply chain model in view of sourcing artisanal diamonds in a sustainable and ethical manner that is fair to all parties involved.

The most important steps of the mission unfolded as follows:

Date & Time	Description	Participants	Objective
Thu, March 22 8am-12pm	Workshop with Ministry of Mines (MM)	<ul style="list-style-type: none"> North American delegation PRADD staff MM Chief of Staff MM Directorate of Marketing MM Directorate of Mining Support MM Directorate of Export Office 	MM learns the intentions of the supply chain initiative, and provides delegation with overview of the legal framework for cooperatives and how diamond marketing in CAR can operate.
Thu, March 22 1:30pm-5:30pm and Fri, March 23 8am-12:30pm	Workshop with Artisanal Miners, Collectors and the Union of Central African Mining Cooperatives (UNCMCA)	<ul style="list-style-type: none"> North American delegation PRADD staff 5 artisanal miners working in associations supported by PRADD 3 collectors from Nola and Berberati 2 UNCMCA board members 	Miners, collectors and North American buyers develop a road map for a successful supply chain.
Fri, March 23 2pm-4pm	Visit of National Export Office BECDOR, Cutting & Polishing Workshop, BINACA, Diamond School, UNCMCA Headquarters	<ul style="list-style-type: none"> North American delegation PRADD staff UNCMCA board members MM Director of Marketing 	Delegation learns practicalities on diamond valuation, transformation, and export in CAR
Sun, March 25 6pm-9pm	Dinner meeting with Diamond Buying/Exporting Houses	<ul style="list-style-type: none"> North American delegation Senior PRADD staff Directors of 5 buying houses 	Buying Houses learns the intention of the supply chain initiative, Delegation listens to their concerns
Tue, March 27 8am-3pm	Visit of the Artisanal Mining Community of Camp Goum	<ul style="list-style-type: none"> North American delegation PRADD staff MM Regional Director Community of Camp Goum 	Delegation observes reality of artisanal diamond mining on the ground as well as concrete achievements of PRADD project
Wed, March 28 2pm-3pm	Outbrief with Minister of Mines	<ul style="list-style-type: none"> North American delegation PRADD COP Minister of Mines MM Chief of Staff 	Delegation informs the Minister of Mines on the outcome of the exploratory mission and next steps USAID and Minister discuss PRADD's future in CAR
Wed, March 28 4:30pm-5:30pm	Outbrief with US Ambassador	<ul style="list-style-type: none"> North American delegation PRADD COP US Ambassador US Embassy political and economic advisors 	Delegation informs the US Ambassador on the outcome of the exploratory mission and next steps

2.0 WORKSHOP WITH THE MINISTRY OF MINES

2.1 PRESENTATION BY USAID: WHY A SUPPLY CHAIN EXPLORATORY MISSION?

In 2011 PRADD conducted a feasibility study of a direct diamond supply chain linking North American buyers to African miners. The study found that a direct supply chain was feasible. The report was presented in October 2011 by USAID at the Department of State to members of the North American diamond industry, including manufacturers and retailers, as well as NGOs and the World Bank. A subsequent workshop at Tiffany's in New York in December concluded that a supply chain sourcing artisanal diamonds in a sustainable and ethical manner that would be fair to all parties being apparently feasible, a mission to CAR for closer examination was merited.

CAR was chosen for the visit because of PRADD's extensive and longstanding field presence there, the high levels of trust established with the government and with miners, and the possibilities for legal export through the cooperatives of artisanal miners that PRADD was endeavoring to nurture.

USAID has formal mechanisms through which it can collaborate with the private sector on common objectives, such as a public-private partnership (PPP), which involves no financial commitment, and a Global Development Alliance (GDA), which requires a one-to-one financial contribution between USAID and business stakeholders towards a common purpose. Under both circumstances a Memorandum of Understanding would be drafted and agreed upon between the contributing organizations.

USAID is a facilitator between commercial stakeholders and will not, regardless of the future of this scheme, purchase or market diamonds. USAID's PRADD program will continue to pursue its overall objective, which is to increase the number of diamonds entering the legal chain of custody while improving artisanal mining livelihoods. PRADD will continue to assist Central African miners in forming into associations that can evolve into cooperatives and training those member miners in business and in management skills, promoting ethical standards, helping clarify miners' property rights, and training them in complementary livelihoods.

2.2 PRESENTATION BY THE DIRECTORATE OF MINING SUPPORT: THE COOPERATIVE SYSTEM IN CAR

Alluvial diamond extraction in CAR has been ongoing since the 1930s and has moved to artisanal mining as the industrially profitable deposits became exhausted. In 1961, the government made artisanal mining legal for all Central African nationals of at least 18 years of age. The Ministry of Mines (MM) estimates that around 80,000 artisanal miners are active in CAR, not counting diggers. The annual production was 310,000 carats in 2011 but it has been as high as 500,000 carats in 1994 and 610,000 in 1968. This elasticity depends on the quality of research and exploration in the vast and under-populated country's surface area. The surge of production in the 1980s, for example, was partly due to new geological findings by mining companies. The

most important assets for production in CAR are (1) the existence of many untapped alluvial deposits, and (2) the speed of artisanal miners' response to new diamond finds.¹

In 2003 the new government established a framework for a system of artisanal mining cooperatives to promote small-scale entrepreneurs in the mining sector. The 2009 Mining Code relaxed the conditions for creating a cooperative, and granted cooperatives the right to export diamonds directly.

An artisanal mining cooperative must be composed of a minimum of 10 licensed artisanal miners (there is no maximum), pay membership fees to the Union of Central African Mining Cooperatives (UNCMCA), and request formal approval from the ministry. The total cost is equivalent to \$120 plus \$660 per year for a cooperative of 10 people. In addition, a cooperative has the opportunity to access an "authorization of artisanal exploitation", which is a first step toward an exclusive mining title. Finally, a foreign partner can be granted the right to circulate freely in mining areas for a fee of \$600 per month. However, the main advantage of a cooperative is the ability to export; a cooperative can export its production for a minimum value of 20,000,000 XAF (around \$40,000).

The export tax for cooperatives is 9%, as per the Mining Code, but the Ministry's Directorates provided unclear, contradictory information about an additional 2% that is to revert to the UNCMCA, which seemed intended to be a standard, albeit criticized practice. Subsequent discussions did not clarify this point.

The presentation concluded that the cooperative system has not yet reached its full development due to constraints linked to the lack of reliable partners, underlying conflict with collectors and buying houses on cooperatives' right to export, and the implication that unlawful actors could exploit the system, an unintended consequence of the government's policy objective of helping create a Central African middle class.

2.3 PRESENTATION BY THE DIRECTORATE OF MARKETING: RULES AND REGULATIONS IN DIAMOND MARKETING

The Mining Code of 2009 provides attractive incentives for foreign investors to work with Central African artisanal mining cooperatives. However, essential points of the law must be respected:

- The only stakeholders lawfully entitled to mine diamonds are licensed artisanal miners, artisanal mining cooperatives, and mining companies. Foreign partners and/or collectors are not allowed to mine.
- The only stakeholders lawfully able to buy diamonds in-country are licensed collectors, buying houses and their agents, and mining companies.² Artisanal miners and artisanal mining cooperatives are not allowed to buy.
- The only stakeholders lawfully entitled to possess and transport diamonds are licensed miners, artisanal mining cooperatives, collectors, buying houses and their agents, mining companies, and cutting and polishing enterprises. Foreign partners are not allowed to possess or transport diamonds.
- The only stakeholders lawfully entitled to export diamonds are artisanal mining cooperatives and buying houses. Foreign partners are not allowed to export.

These stipulations mean that foreign buyers working with Central African cooperatives cannot buy, possess, or transport diamonds in-country, let alone export diamonds from CAR. In any direct marketing system the cooperatives themselves must export the goods, pay the tax, exit the country with the diamonds, and sell the diamonds abroad. Alternatively, secure transport companies such as Brink's or G4S could open an office in Bangui to provide this service.

¹ The need to support additional research and exploration and to provide geological training to miners to augment production was underscored by the buying houses and the minister himself. It seems to be as important as the provision of equipment and funds.

² In the case of artisanal mining, diamonds may only be purchased from artisanal miners working legally titled claims.

2.4 CONCLUDING REMARKS BY THE CHIEF OF STAFF OF THE MINISTRY OF MINES

In the introduction and concluding remarks, the Chief of Staff warmly welcomed the initiative supported by USAID through PRADD and underlined that the cooperative system was a key aspect of the government's vision for miners to form cooperatives, and the government's policy to foster small-scale entrepreneurship, to increase production and traceability, and to shift toward semi-mechanized and semi-industrial production. Ministry officials and PRADD staff also noted that a direct supply chain scheme, although permissible under the law, has never occurred, and constitutes a novelty. Partners would need to solve problems as they arise in a creative and mutually beneficial manner in this unmarked territory.

3.0 WORKSHOP WITH ARTISANAL MINERS, PROVINCIAL COLLECTORS, AND THE UNCMCA

3.1 PRESENTATION BY PRADD: INTERESTS AND OPPORTUNITIES IN A DIRECT DIAMOND SUPPLY CHAIN

PRADD reminded participants that a direct diamond supply chain involving the country's legal cooperatives was strongly encouraged by the government and permitted under the mining law. Cooperatives can legally export their own production and work directly with foreign investors. A direct supply chain would benefit the government by improving the prospects for traceability and formalization, while augmenting government revenue from export taxes and licensing fees. It would also benefit the North American industry by providing a new source of diamonds at a cheaper price, along with a possibility to associate a development story to diamonds as a marketing tool. Finally, it would benefit the artisanal miners by providing them with investment, training, and potentially better prices. However, it is vital that no stakeholder—such as collectors, buying houses, or the UNCMCA—feel isolated or bypassed by the initiative.

PRADD recommended the initiative start working with the mining associations the project currently assists. PRADD's vision to bring individual miners to the level of a cooperative starts by building trust gradually through the pooling of resources. This occurs in phases: first pooled savings, then pooled labor, then pooled equipment, and finally pooled profits. PRADD currently supports 44 such informal mining associations in three southwestern provinces, which as a whole produced 5,221 carats in January and February 2012.

The objective of this workshop was to design a roadmap for a direct marketing scheme which would benefit all stakeholders.

3.2 PRESENTATION BY GENEVIEVE ENNIS HUME FROM HUME ATELIER: STANDARDS, TRACEABILITY, AND THE CONSUMER

While the Kimberley Process Certification Scheme helps to limit the volume of diamond-driven conflicts, to protect the legitimate industry, and to increase national export revenues, it does not yet provide the assurance of full traceability, nor prioritize rural development. The notion of “development diamonds” is a trading standard that appeals to small companies and small artisanal miners, to the industry as a whole as a way to maintain integrity, and to the niche of consumers who want ethically-sourced diamonds.

Fair-trade, fair-mined ethical standards encompass fair pricing to the consumer, effective community development, safe labor practices, environmental reclamation, women’s rights and the guarantee of no child labor.

While there is a difference between fair trade as a trademark and “fair trade” as a whole, the former is a good indication of the evolution of demand. Sales of ethically-sourced diamonds increased by 63% in the US in 2011, and the overall ethical market increased from \$57.9 billion in 2007 to \$66.6 billion in 2009 in the UK. As the idea of a product’s value depending on other factors than competition develops, more jewelry consumers will be ready to pay a premium for an ethically-sourced diamond that is traceable to the producer.

Recent consumer trends suggest that a direct supply chain would benefit from the ongoing growth of the ethical market, ideally providing further incentive for retailers to participate in the model in the future.

3.3 GROUP AND SUB-GROUP EXERCISES: EXPECTATIONS AND CONCERNS

Participants grouped by trade (miners, collectors and traders) were tasked to reflect on their specific expectations and concerns regarding their involvement in a diamond supply chain scheme. The table below summarizes the results of this exercise.

	ARTISANAL MINERS AND UNCMCA	COLLECTORS	NORTH AMERICAN BUYERS
EXPECTATIONS	<ul style="list-style-type: none"> • Direct relation between miners and buyers (no intermediaries) • Fair price • Detailed terms of partnership • Coherent collection system • Livelihood improvement (availability of training, information and awareness raising) 	<ul style="list-style-type: none"> • Opening of a new, North American buying house • Service provision (coordination, transport, know-how, monitoring) 	<ul style="list-style-type: none"> • Fair value for products to CAR • Ethical, transparent, traceable supply chain
CONCERNS	<ul style="list-style-type: none"> • Bureaucracy, administrative formalities • Absence of formal partnership agreement 	<ul style="list-style-type: none"> • Compensation (how will their interests be protected) • Smuggling and illicit buying 	<ul style="list-style-type: none"> • Critical mass of products • Reliable, unified partner (ability of miners to form into a single partner association) • Secure transfer of diamonds

A few items are specific to each single stakeholder; but it is noteworthy that none of the expectations or concerns contradicts another. In fact, three trends can be discerned:

1. TRANSPARENT, RELIABLE, AND DETAILED PARTNERSHIP

Artisanal miners are concerned that an unwanted intermediary might hijack the partnership and expressed their willingness to maintain direct contact with the foreign buyers. Likewise, North American buyers want to deal with a unique partner they can rely on, speaking with a single voice. Collectors themselves are willing to participate on the condition that their specific added value (e.g., to fight smuggling or coordinate actions) will be recognized and integrated into a clear partnership. In brief, everyone wants reliability.

2. FAIR AND TRANSPARENT PRICE BASED ON EVERYONE'S SKILL

No one must feel cheated on prices. Miners are gaining more understanding of the value of a stone and want a fair price. Collectors have a value added as transporters of diamonds, and local coordinators of information and investment, and want these skills to be remunerated fairly. North American buyers want a competitive price on the international market. All stakeholders are businesspeople who understand how prices increase along the value chain due to costs such as transport and tax. What they all insisted on, however, was the transparency of these costs. Everyone must be paid according to his skill, a system that the participants summed up in a simple motto, “Miners mine, collectors collect, buyers buy, and everyone must be paid fairly for what they do.”

3. COHERENT AND SECURE COLLECTION AND TRANSFER OF PRODUCTS

North American buyers worry about how diamonds will safely travel out of the country, the same way miners worry that their production will not end up reaching the hands of their foreign partners. In between, collectors know the strength of their added value in coordinating transfers, and hope that their role as intermediaries will be of use. All in all, everyone wants to create a secure, coherent, and traceable transfer system. All stakeholders fear leakages such as smuggling and illicit sales.

3.4 SUB-GROUP AND PLENARY FINAL EXERCISE: DESIGN OF A SUCCESSFUL ROADMAP

Participants gathered in mixed groups to reflect upon the elements of a roadmap to a supply chain that would fulfill aspirations and alleviate worries. Participants enumerated general principles and sketched out a first outline of what the supply chain would look like.

General principles—some are still questions to be resolved—encompass the areas of production, investment, and partnership.

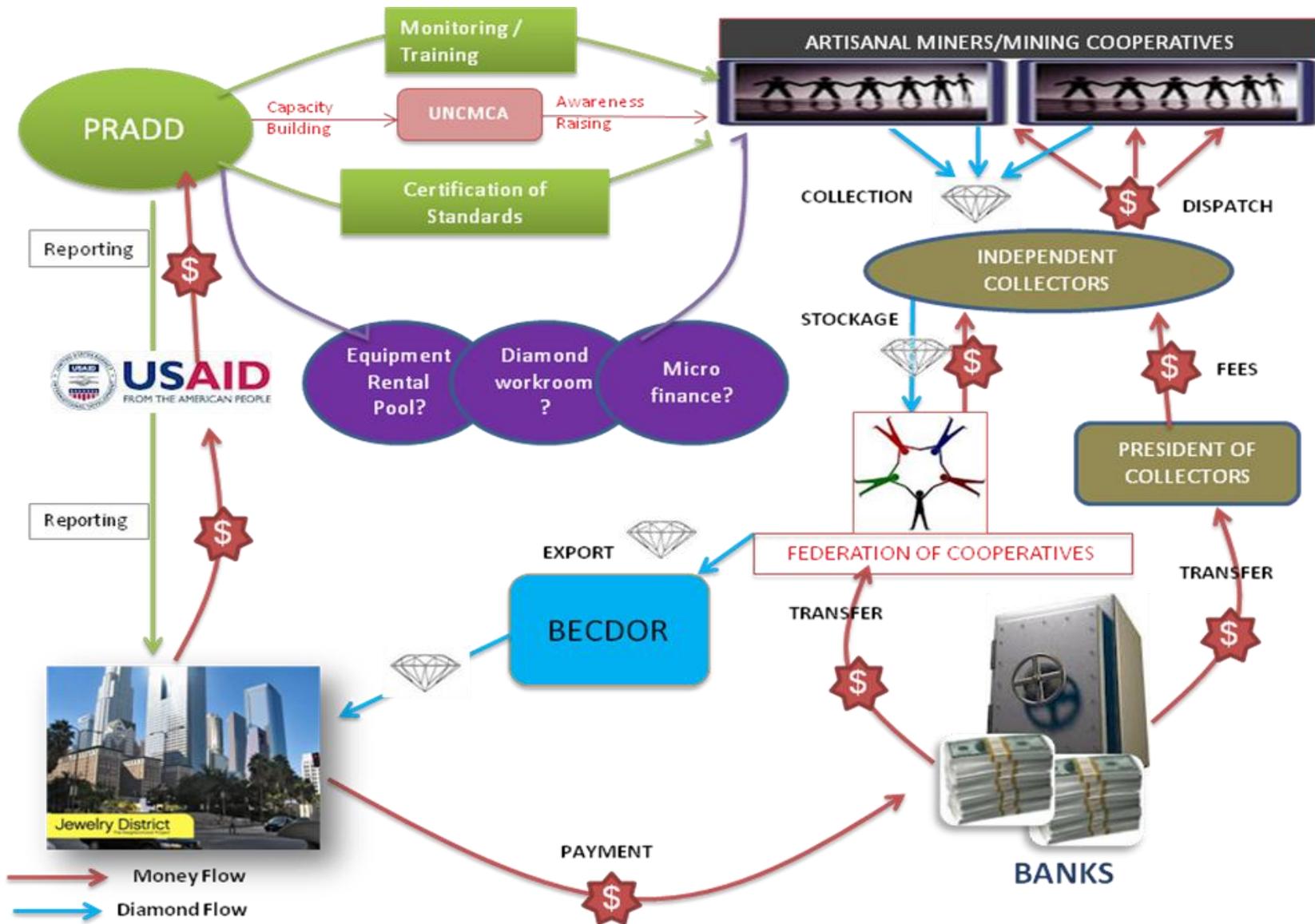
The quantity of production is directly linked to available investment. Currently, financing from existing actors in the supply chain typically covers food, medicine, and basic tools including shovels, sieves (jigs), and water pumps. The traditional methods of artisanal diamond mining should be given preference over semi-mechanized methods, at least in the beginning, until the relationship has been established and trust built. To offset the risk to new actors' financing, collectors agreed with the buyer's suggestion of collateral. Diamonds could be used as collateral for an initial cash investment.

The key to the partnership—trust—is at the core of the system. Unfortunately, there is a poor track record in the sector. Everyone needs everyone and everyone needs to make money, so the system will only work as long as stakeholders are ready to change their mindset about each other, and learn to work in a win-win business partnership.

Figure 1, on the following page, is a draft supply chain model. The right half of the chart is the more developed. Individual artisanal miners associate and become cooperatives through support from USAID and private sector investors. Cooperatives designate collectors to work with, who gather and stock their production. When the stocked production reaches a satisfactory volume, the collector expedites it to the “federation of cooperatives” in Bangui, which can export the diamonds as soon as it reaches the minimum legal threshold of \$40,000 to export (or can wait until a larger volume is collected). Once the diamonds are exported, the buyers wire money to the bank accounts of the “federation of cooperatives” and the president of the collectors. The “federation of cooperatives” dispatches the money for the local cooperatives to the independent collectors, who dispatch it according to the production they received. The president of the collectors distributes the fixed commission fees (i.e. 1% of total export value) to participating collectors. In this area, the following questions must be answered:

- How is the quality and quantity of diamonds collected from the cooperatives recorded and organized so that they are compensated appropriately at a later date once the diamonds are exported and payment

FIGURE 1. A SUCCESSFUL DIAMOND SUPPLY CHAIN



received? For this to work, parcels of diamonds need to be accurately valued and marked before they are grouped into the larger pool of diamonds collected from all the participating cooperatives. This valuation system needs to correspond to the final official export valuation as well.

- Who is the final exporting agent? At this point, there is no such thing as a “federation of cooperatives”. It could be a cooperative itself, composed of many different branches.
- Participating collectors can continue their preexisting activities as collectors. How will the local cooperative branches designate them?
- Participating collectors prefer that buyers wire their commission fees to their president separately from payment to miners. Whose bank account will it be? Can the system be simplified once trust is built between miners and collectors?

In the lower left corner, the “federation of cooperatives” exports its overall production to the United States. The price miners receive is based on *Bureau d’Evaluation et de Control de Diamant et d’Or* (National Export Office’s [BECDOR]) official valuation. This official export price will be circulated transparently throughout the chain so that everyone can start calculating their shares (miners) and commissions (collectors).

Money is wired as soon as the export price is announced and the diamonds are picked up by the buyers or their designated couriers. The following questions remain:

- Who pays the export tax: cooperatives or buyers?
- Who carries the parcel to North America? Will a designee of the “federation of cooperatives” actually transport the diamonds outside of the country or should a secure transport service be contracted to perform this function?
- Can a secure transport service company based in Europe come to Bangui, spend one night in Bangui, and then depart with diamond parcels, or does the law require it to open an office in Bangui?

The upper left corner of Figure 1 is the least developed at this time. Through PRADD USAID continues to work with individual artisanal miners to group them into local associations, then cooperatives. PRADD could further work with the UNCMCA on this. PRADD can also monitor the work of local cooperatives to ensure that human/children’s rights as well as laws are respected, and then report to the North American buyers, who can decide to stop working with any noncompliant cooperative. This type of monitoring activity could also be delegated to a third party such as the Diamond Development Initiative (DDI). Finally, the North American buyers could benefit from PRADD’s experience in equipment rental pools, diamond valuation workrooms, microfinance and training in advanced mining techniques. These activities (e.g. equipment and training) funded by USAID could also be complemented and augmented by private sector investors through a public-private partnership such as a Global Development Alliance. This would help contribute to the increased productivity of miners while ultimately increasing the volume of diamonds available to the buyers.

4.0 DELEGATION VISITS IN BANGUI

UNION NATIONALE DES COOPÉRATIVES MINIÈRES DE CENTRAFRIQUE (UNCMCA)

The National Union of Central African Mining Cooperatives umbrella organization for artisanal mining cooperatives has had a difficult history. A new president, Prisca Moeke has been appointed. She was one of two UNCMCA officials who participated in the second workshop, and invited the delegation to visit UNCMCA offices. There the delegation was shown a six-carat rough stone that US experts judged to be of fairly high quality. The price that was quoted for the stone (later confirmed by the export authority, BECDOR) was deemed competitive.

CARAT INVESTMENTS

The delegation visited CAR's only school of diamond valuation. There they met the founder and director Ange Maxime Kazagui, and were shown the classroom facilities and rough stones that students use to learn diamond valuation.

BUREAU D'EVALUATION ET DE CONTRÔLE DE DIAMANT ET D'OR (BECDOR)

The delegation visited the diamond export authority, BECDOR, and met the government's senior diamond valuator, who provided a tour of the strong room in which diamonds are valued prior to export. The six-carat stone mentioned above was valued, and the delegation's experts concurred with the price. The delegation learned about the taxes to export diamonds, as well as the procedure for how packets of rough stones are physically transported out of the country.

BIJOUTERIE NATIONALE DE CENTRAFRIQUE (BINACA)

The delegation visited CAR's only diamond manufacturing facility. There the delegation viewed tools and equipment for cutting and polishing diamonds and for manufacturing gold and silver jewelry as well. The delegation was shown samples of jewelry manufactured at BINACA.

BUYING HOUSES

The delegation met with the directors of the diamond buying houses in a dinner meeting on March 25. Five out of the seven buying houses operating in CAR were present, representing over 95% of the annual exports in volume from CAR:

- BADICA, operating in CAR since 1983, representing 30-35% of exports;
- SODIAM, operating in CAR and other African countries since the early 1970s, representing 30-35% of exports;
- African Diamond Resources, operating in CAR since 2005, representing 10-15% of exports;
- Sino-Sango, which opened in 2011, representing less than 5% of exports; and
- COMIGEM, the state-run buying house opened by ministerial decree in 2004, representing less than 2% of exports.

The other two buying houses, INALA and Sud-Azur, were also invited to the meeting, but did not attend.

USAID briefly presented the genesis of the supply chain visit as another attempt to fulfill PRADD's twofold mandate of increasing the volume of carats entering the legal chain of custody and improving the livelihoods

of artisanal miners. PRADD has been working in CAR since 2007 and directly supports around 3,200 artisanal miners in three southwestern provinces. In addition to its activities in governance and communication at the national (Ministry of Mines) and international (Kimberley Process) levels, PRADD supports the recognition of the miners' property rights over diamond mining claims, income diversification and food security enhancement through the conversion of exhausted diamond pits into agricultural and fish-farming units, access to professional diamond valuation and artisanal mining equipment, training in income and savings management, enhanced extraction techniques, and awareness raising on the mining law in general. So far, PRADD's efforts have effectively helped reduce smuggling and improve the miners' livelihoods:

- The proportion of miners selling to illegal stakeholders decreased from 22% to 8% and the monthly average of legal diamond sales increased 450% from 2010 to 2011 in PRADD's intervention areas; and
- Over half (53%) of artisanal mining households earned more income in 2011 than 2010.

Since 2011, PRADD has supported the assemblage of individual artisanal miners into local mining associations. This step is intended to spread risks and develop artisanal miner's autonomous entrepreneurship. Members pool savings, labor, equipment, and profits.

The hypothesis of the direct supply chain scheme is that some of these mining associations could become legal cooperatives exporting to the North American market through the support of North American diamond manufacturers, traders and jewelers. This hypothesis was examined in the feasibility study described above, and vetted in follow-up discussions in Washington and New York in October and December 2011. The main stipulations of the North American industry and the US government are the following:

- Such an initiative must not circumvent the already existing legal stakeholders and intermediaries;
- Such an initiative must be small and target quality rather than quantity; and
- Such an initiative must be profitable.

In some of the discussions with SODIAM and African Diamond Resources, there were concerns expressed regarding the proposed supply chain initiative. Other buying houses remained silent or undecided. The expressed concerns include the following:

1. The different taxation rates between mining cooperatives (9%) and international buying houses (12%) would create unfair competition. Theoretically, every legal exporter pays a 9% export tax: the additional 3% is paid by collectors working with the buying houses, which the cooperatives do not need as they are permitted to export directly under a policy put in place by the Ministry of Mines—intended to promote cooperatives so as to create a Central African middle class. However, the buying houses often cover the collectors' 3% and therefore in practice, always end up paying a combined export tax of 12%. Note that the former management of cooperatives' exports by the UNCMCA also distorted the 9% tax, as the UNCMCA and the Directorate of Mining Support collected an additional "tax" of 2%; this, however, was not included in the law. This point was recognized as a legitimate concern; however, the tax rate is government policy and was intended to promote cooperative development, which is aligned with the proposed initiative discussed during the supply chain visit.
2. The intended scheme would funnel existing production from the buying houses to the cooperatives without necessarily guaranteeing an increase in overall production. The introduction of a new economic operator in the existing system could entice current producers away from their traditional buyers and "reduce shares of the pie." Although the injection of additional cash into the system, especially in a period of scarce investment, could increase production as a whole and would thus benefit all stakeholders, this assumption could prove wrong. An effective boost in production would depend on the available workforce, its productivity, and finding new geological deposits. This was recognized as a legitimate concern: the scheme should be accompanied by an effective augmentation of production so as to avoid negatively affecting existing stakeholder financial interests.

3. The system would run the risk of exporting illegally bought (rather than legitimately mined) diamonds. Some cooperatives have misused the 2009 Mining Law by buying diamonds from artisanal miners, which is illegal, rather than engaging solely in lawful production. A system that would offer local cooperatives the possibility to export directly to foreign partners could entice cooperative managers to buy diamonds rather than to mine. This was recognized as a legitimate concern: effective and constant monitoring is essential; in addition, PRADD would prioritize working with the artisanal miners with whom it has already forged a relationship of trust over the past five years, rather than any existing cooperatives.
4. The intended scheme could, over time, create the risk of a monopoly and bankrupt the existing buying houses. This threat stems from the very large buying potential of the North American market associated with the past involvement of the UNCMCA in the export scheme. This was dismissed as an illegitimate concern. First, because the intended scheme is more interested in traceability and quality than in quantity, it can only work by remaining small and well monitored: the purpose is to associate a specific stone with a development story that the seller can track back to a specific village and miner, a marketing niche for which some North American buyers are ready to pay a premium. Second, the scheme does not stem from the UNCMCA system, but from the particular relationship developed over years between PRADD and around 35 artisanal mining communities. It is a social investment project based on local trust.
5. The cooperative system could become a façade for organized smuggling. The current legitimacy of the cooperative system was harmed by some foreigners who used the Mining Law to smuggle diamonds in the past, either by buying the goods in-country or by declaring only part of the exports. This in turn harmed the legitimate business of buying houses in CAR. This threat was forcefully dismissed as illegitimate: North American buyers would buy abroad and let the cooperatives export, as per the law. In addition, USAID and the State Department created PRADD to encourage legitimate and legal sales and to reduce smuggling and will thus pay specific attention to the legitimacy of all operations.
6. The proposed “fair trade diamond” scheme wrongly implies that buying houses are not acting in a fair way, when in fact they are fully legitimate. North American traders and jewelers in the 2011 workshops also rejected the idea of an “ethical diamond” since it would imply that other diamonds are not ethical. This concern is shared throughout the industry. In fact, this illegitimate concern stems from a misunderstanding over the term “fair trade,” which is used only to describe the ability to trace a product from the producer to the consumer and does not convey moral implications. In fact, “fair trade” is a trademark implying specific commercial standards that this proposed supply chain would not be able to meet. The Kimberley Process, as it stands, does not guarantee traceability. The US government and PRADD defend artisanal diamonds as a poverty reduction tool, if well monitored.

COMMENT ON THE CONCERNS OF THE BUYING HOUSES

In conclusion, the buying houses operating in CAR declared that they appreciated the transparency with which the US government facilitated this exploratory mission, and that any new business operator would be welcome as long as they respect the principle of lawful, ethical competition. Nevertheless, some of the buying houses’ legitimate concerns will have to be addressed should the idea of a direct supply chain be translated into action.

Any steps to alleviate the buying houses’ concerns should begin with them acknowledging that they have directly benefited from the PRADD project.. USAID’s investments through PRADD in artisanal diamond mining in CAR have produced the following achievements that have redounded to the buying houses’ credit:

- **Increased legal sales:** PRADD works with 3,252 artisanal diamond miners who work 5, 580 mines, of which 2,849 have been publically validated as legitimate claims. Of those validated claims, 1,380

have been certified as such by the government. Diamond production from the area in which these claims lie reached 68% of the national total of 89,346 carats in the first quarter of 2012, up from 5.4% in 2010.

- **Addressing the threat of sanctions:** USAID has regularly defended the government of CAR at the Kimberley Process meetings, helping prevent CAR's diamonds from being labeled "conflict diamonds" and thereby falling under UN sanctions. This has enabled the buying houses to continue exporting.
- **Reduced license fee:** Prior to 2011 the fee for artisanal mining licenses was very high and only a small percentage of miners bought licenses to mine. PRADD produced a comparative study of artisanal licensing systems in ten countries that showed that reducing license fees increases the number of miners who buy licenses sufficiently to increase government revenues. Based on this evidence the government of CAR cut the artisanal mining license fees by 36% in January 2011 and 41% more miners bought licenses in 2011.
- **Raised awareness of the importance of selling through legal channels:** PRADD has extensive public communications through both print and broadcast media, currently totaling a cumulative 36,804 minutes of broadcast messages and 229,983 words in print media on important aspects of artisanal diamond mining. In addition, based out of its field offices PRADD staff regularly visit mining communities and meet the participating miners to reinforce messages about artisanal mining. Through its communications PRADD has been able to measurably raise miner awareness about the importance of operating legally, among other significant changes in the behavior of miners.
- **Equipment rental pools:** PRADD has opened pools of equipment that member miners in the associations can rent. PRADD has equipped the pools with shovels, wheelbarrows, hand jigs and motor pumps, and has assisted the associations in developing internal controls through intensive training on administrative, logistical and financial management, the rental template and other basic management tools. PRADD also helped set the rental prices based on amortization and costs. Maintenance and salaries of the board members are included in the rental prices.

These and other successes of PRADD have benefitted the buying houses, and a first step in alleviating the buying houses' concerns would be pointing out this fact.

5.0 DELEGATION FIELD VISIT

The delegation accompanied by the Regional Mining Director visited the artisanal mining community of Camp Goum, an isolated community in Lobaye Province, where 123 artisanal miners work full time. The mining associations of Camp Goum record some of the largest volume in monthly production, including some of CAR's finest diamonds.

The delegation discussed various topics with miners at the sites visited, and was able to see firsthand why standards and close monitoring of diamond production would be needed. The delegation saw, for example, a couple of teenagers digging in the pits. The Regional Director was furious because he had come to the same site to resolve a conflict a couple of weeks earlier and had already warned miners of the Mining Law against Child Labor. The fact that the owner did not send the teenagers away during an official visit, especially after an official warning, shows how deeply the practice is rooted. Of course, the problem is more complex than simply culture; as there is no school in Camp Goum, teenagers have limited opportunities to do anything else.

The delegation also visited the diamond valuation workroom set up by PRADD and saw that trained miners are capable of understanding the characteristics of diamonds, and estimating their worth. In a discussion regarding diamond production, miners were asked how they would ensure that only the mined diamonds would go through the supply chain, and would not be bought illegally from non-member miners. Miners misunderstood the question as “how could you increase the number of diamonds exported” and answered that they could ensure a growing flow, which obviously would involve illegal buying in addition to production. This once again infuriated the Regional Director.

On the brighter side, the community seemed very enthusiastic, participative, and ready to engage in a fruitful collaboration. Miners did not show a “handout” mentality at all, but acted as responsible entrepreneurs who seem ready to share risks. This was demonstrated during the inauguration of the first equipment rental pool, funded by USAID, run by a local benefit society to rent mining and agricultural equipment at rates accessible to miners.

In conclusion, the field visit demonstrated plainly that a supply chain scheme with artisanal miners represents challenges and opportunities. On one hand, it is possible to change the prevailing mindset of dependency and individualism of artisanal miners. They are capable of creating responsible mining associations, sharing risks, and understanding basic principles of entrepreneurship. Not all miners are static. On the other hand, serious monitoring will be necessary, especially to make sure children under 18 are not employed on mining sites and that diamonds collected from artisanal mining associations have been genuinely mined and not illegally bought.

6.0 CONCLUSION, RECOMMENDATIONS AND NEXT STEPS

The exploratory mission undertaken by representatives of the US government and the North American diamond industry to CAR concluded that a direct supply chain linking CAR producers with North American buyers is feasible. The legal framework provides scope, and the scheme could count on Central African government support. The national export office is staffed with competent valuers, who would ensure that exported parcels would be valued and taxed based on the true value of goods. A large set of local stakeholders – both artisanal miners and provincial diamond collectors – are willing and ready to change existing mentalities and behavior to create a mutually beneficial approach. The presence of USAID at the grassroots level and the work of the UNCMCA could guarantee the necessary preparation and initial monitoring to group artisanal miners into local cooperatives, which is a key aspect of the scheme. Even the most wary stakeholders – buying houses, which would be the most threatened by a system bypassing them – are ready to accept the idea of a direct supply chain provided the competition is legal, fair and transparent. During the workshop, artisanal miners, provincial collectors and foreign buyers even sketched the fairly detailed production, collection and export system included in this report. Finally, and perhaps most importantly, North American and Central African stakeholders met, talked and argued in a transparent manner. They found that most of their concerns – fraud and smuggling, social and environmental damages, unfair pricing – are the same. The visit thus established a good foundation for building trust.

Many details must be resolved regarding the creation of cooperatives, social and commercial monitoring, export specificities, money transfers, and stakeholders' responsibilities. In addition, the core question, whether a direct supply chain would actually be profitable to the North American industry, was not addressed by the visit. These issues, especially profitability, will require longer and deeper examination. To fully understand and reach agreement on legal details and responsibilities will involve a lot of discussion and trust building given that this scheme is ground-breaking; having never been thought of, let alone implemented. The mission was able only to conclude that the possibility for a direct supply chain exists, and that the profitability scheme is worth examining.

Based on this outcome, the North American industry should conduct a cost-benefit analysis to determine the profitability of the scheme. This will require a visit to CAR by a technical expert of sufficient duration to assess accurately the quality of the goods available, the transaction costs to be incurred, and the amount of the investment needed.

Aside from this technical work, the challenges observed in the mining community and the various discussions conducted in Bangui made obvious that a supply chain must be grounded on strong and permanent monitoring of miners. This would best be carried out by an external, non-commercial actor seasoned in the social, environmental, legal and commercial aspects of artisanal diamond mining. The North American diamond industry and USAID should continue discussions of the modalities of this necessary function.

Finally, the Central African view on this visit was as positive as the North American perspective, maybe even too positive. It created lots of expectations among miners, provincial collectors, presidents of existing cooperatives, and the Ministry of Mines – and lots of concerns among some buying houses. USAID and the

US embassy will help temper these expectations. However, it is important to underline that clarity on the next steps is needed in Bangui. Questions were raised that need answering. In the field, USAID also concluded that its support program should focus further on the organizational aspect of artisanal miners: it will thus focus activities more closely on helping miners enhance their knowledge and skills, access financing and equipment, and form into local associations in its next 2012-2013 work plan.

In summary, the direct supply chain visit concluded that:

- Opportunities exist to introduce a profitable supply chain between Central African artisanal miners and North American diamond buyers. This understanding is based on the positive enabling environment, USAID's presence in the field, artisanal miners' readiness for behavioral and economic change, collectors' openness to participate, and the good quality of CAR diamonds. However, questions remain, and the North American diamond industry must work out many technical details while building trust with stakeholders.
- It is recommended that investors send a specialist to CAR for the time required to analyze the proposed scheme and calculate its potential profitability. This will require additional data collection, engaging stakeholders further, developing personal relationships, and obtaining written commitments on key aspects of the supply chain scheme.
- In parallel, investors and USAID should further explore the possibilities and technical details of collaboration. As PRADD has completed its 2012-2013 work plan, future programmatic activities will need to fit into this framework.

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