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**A Comprehensive Approach to
Reducing Fraud and Improving the
Contribution of the Diamond Industry to
Local Communities in the
Central African Republic**

Final Draft

Contents

Acknowledgments ■ vi

Foreword ■ vii

Abbreviations ■ viii

Executive Summary ■ 1

1 Structure of the Central African Republic's Diamond Industry ■ 9

- Artisanal Miners ■ 9
- Mine Workers ■ 10
- Artisanal Diamond Miners Cooperatives ■ 11
- Mining Companies ■ 12
- Collectors ■ 13
- Diamond Buying Houses ■ 14
- Cut and Polished Diamond Market ■ 15

2 Diamond Markets, Prices, and Value Chain in the Central African Republic ■ 17

- Diamond Production ■ 17
- Diamond Prices ■ 18
- Diamond Exports ■ 21
- Diamond Value Chain ■ 21

3 Diamond Regulatory and Fiscal Framework ■ 25

- Legal and Regulatory Framework ■ 25
- Artisanal Diamond Export Taxes ■ 26
- License and Registration Fees ■ 27
- Other Fees and Charges ■ 28

4 Government Oversight and Regulatory Institutions ■ 30

- Ministry of Mines and Mining Brigades ■ 30
- BECDOR ■ 31
- KP Permanent Secretariat ■ 32
- KP Monitoring System ■ 32
- Analysis of KP Data and Variances ■ 33
- Other New State Institutions ■ 35

5	Diamond Fraud in the Central African Republic	■ 36
	Informal Channels for the Sale of Central African Republic Diamonds	■ 36
	A Context for Fraud	■ 38
	Quantitative Analysis of Fraud in the Central African Republic	■ 39
	Estimate of Tax Losses due to Fraud in 2008	■ 44
6	Improving the Diamond Industry's Community	■ 45
7	Conclusions and Recommendations	■ 48
	Improving Miner Performance through Training and Improved Access to Capital	■ 48
	Improving the Performance of the Buying Sector	■ 52
	Reforming Diamond Export Pricing, Taxes, and Oversight	■ 54
	Industry Oversight	■ 55
	Identification and Investigation of Diamond Mining, Sales, and Fraud	■ 57
	Reducing Poverty and Improving Health, Safety, and Environmental Impacts	■ 58
	Preparing a Roadmap and Implementation Plan	■ 60

Appendixes

A	Example of Artisanal Diamond Mining Policy Paper	■ 65
B	World Diamond Production	■ 72

Bibliography ■ 76

Figures

1.1	Number of Diamond Collectors in the Central African Republic	■ 14
2.1	Diamond Production in the Central African Republic by Volume and Value, 2003–09	■ 17
2.2	Diamond Mining Sites in Central African Republic	■ 19
2.3	Main Export Markets for Central African Republic Diamonds, 2008	■ 21
7.1	Draft Roadmap for Reform of the Diamond Industry in the Central African Republic	■ 61
B.1	Fluctuations in World Diamond Production, 2004–08	■ 73
B.2	Country Shares of World's Rough Diamond Production, 2004 and 2008	■ 74
B.3	Country Shares of World's Rough Diamond Imports, 2008	■ 75

Tables

1.1	Licensed Mining Companies and Their Status as of June 2009	■ 12
2.1	Reported Diamond Production by Mining Site (ct)	■ 18
2.2	Average Annual Producer Diamond Price by Mining Site, 2003–08 (CFAF/ct)	■ 19
2.3	Average Diamond Price Differentials across the Central African Republic Value Chain as of June 2009	■ 20
2.4	Average Purchase Price for a 0.5 ct Diamond across the Central African Republic Value Chain as a Percentage of the Buying Office Price	■ 20
2.5	Annual Diamond Exports of the Central African Republic, 2003–08 (million \$)	■ 21
2.6	Comparison of BECDOR List Diamond Prices with Tel Aviv and Antwerp Market Prices, by Diamond Volume and Quality (\$)	■ 22
2.7	Average Estimated Diamond Prices along the Value Chain	■ 22
2.8	Estimated Diamond Sales at Different Points in the Value Chain	■ 23
2.9	Value Chain Analysis for Estimated Legal Central African Republic Diamond Sales	■ 24
3.1	Diamond Taxes and Fees 2000–09 (million CFAF)	■ 26
3.2	Central African Republic Diamond Tax Structure	■ 27

3.3	Comparison of Country Tax Rates on Diamond Exports (%)	■	27
3.4	Diamond Industry License and Registration Fees in the Central African Republic	■	28
3.5	Cross-Country Comparison of Buying House Diamond Export License Fees (\$)	■	28
3.6	Total Buying House Diamond Export License and Registration Fees in the Central African Republic	■	29
4.1	Changes in Reported Production and Average Diamond Prices in the Central African Republic, 2003–08	■	34
4.2	Reconciliation of Central African Republic Diamond Export/Import Data	■	34
4.3	Comparison of Average Price of Diamond Exports from the Central African Republic with Average Price of Imports in the Recipient Countries, by Rough Diamond Code (\$/ct)	■	35
5.1	Average Diamond Purchase Prices for Legal and Illegal Transactions across the Central African Republic Value Chain for Scenario A and Scenario B (\$ per ct)	■	41
5.2	Illegal Sales at Different Points in the Central African Republic Value Chain	■	41
5.3	Legal and Illegal Diamond Sales in the Central African Republic: Scenario A	■	42
5.4	Legal and Illegal Diamond Sales in the Central African Republic: Scenario B	■	43
B.1	World's Largest Diamond Exporters, 2004 and 2008	■	72
B.2	World's Largest Diamond Producers, 2004 and 2008	■	73
B.3	World's Largest Rough Diamond Importers, 2004 and 2008	■	74

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Foreword

This report is the fourth in a series commissioned by the World Bank with the objective of supporting the government of the Central African Republic in its efforts to reduce fraud and improve the economic contribution of the mining industry—in particular, the diamond industry—to the national and local economies. The three previous reports are

- “Assessment of the Central African Republic Mining Sector” (2008), which provides a detailed overview of the Central African Republic’s mining sector;
- “Étude sur le Secteur du Diamant en République Centrafricaine, Rapport” (the Interim Report, March 2010), by independent consultant Leon Boksenbojm, which provides a more in-depth assessment of the diamond industry with a strong focus on reducing fraud;
- “Institutional and Governance Analysis for Environmental Management and Assessment of Environmental Management Issues in the Mining Sector” (April 2010), which addresses environmental management issues in the Central African Republic with a particular focus on the mining industry.

This report draws extensively upon the analysis and findings of the above reports. Most of its tables and figures and some of its text are taken from the 2010 Interim Report. It builds on the recommendations of the three previous reports and offers a comprehensive approach for reducing fraud and improving the contribution of the Central African Republic’s diamond industry to local communities. This approach consists of strengthening the contribution to local economic development by

- improving the performance of miners through training and improved access to capital;
- improving the performance of the buying sector through the establishment of structured buying centers;
- improving the fiscal regime for artisanal diamonds to reduce incentives for fraud;
- strengthening government oversight of diamond mining and purchasing activities and of production reporting;
- designing, preparing, and implementing an anti-fraud campaign;
- reducing poverty and improving gender-related impacts, employment, incomes, environmental impacts and development impacts for local communities.

Abbreviations

BECDOR	Office for Valuation and Control of Diamonds and Gold (Bureau d'Evaluation et de Contrôle de Diamant et d'Or)
CFAF	African Financial Community (Communauté Financière Africaine) franc
ct	carat
KP	Kimberley Process
UNCMCA	National Union of Central African Mining Cooperatives (Union Nationale des Coopératives Minières de Centrafrique)
USAF	Special Diamond Anti-Fraud Unit (Unité Spéciale Anti-Fraude)

All dollar amounts are U.S. dollars unless otherwise indicated; conversions from other currencies are approximations using various prevailing rates of exchange.

Executive Summary

Diamonds are the most important mineral resource in the Central African Republic, accounting for over 40 percent of the country's exports and 3.4 percent of total tax revenues. Around the world artisanal diamond mining is increasing in importance and gaining attention in countries such as Guyana and Peru in Latin America; the Philippines in Asia; and the Democratic Republic of Congo, Ghana, Liberia, Madagascar, Sierra Leone, Tanzania, and Uganda in Africa. The Central African Republic is the world's fourth largest artisanal diamond mining producer with rich alluvial diamond deposits which are found predominantly in the southwest of the country, notably west of the capital, Bangui; other deposits are located in the east and center of the country, where artisanal diamond mining also takes place.

Employment

While reliable data are not available, diamond mining has been estimated to provide a livelihood for as many as 80,000 artisanal miners and another 320,000 workers who are employed by the artisanal miners as "diggers" indicating a diamond mining employment of about 400,000 workers.¹ These estimates include induced employment—that is, non-mining employment that results from the existence of artisanal mining (see Hinton and Levin 2010). Taking into account the families of all these workers, the overall number of people who are beneficiaries of artisanal diamond mining could be somewhere between half and two-thirds of the country's population.² But the diamond industry has not translated into high incomes or standards of living in the mining areas. Mining incomes are low, with most of the profits going to the diamond buyers and traders. Further, diamond mining causes considerable environmental and social harm in the area of the mining communities as risks are generally not well managed or mitigated.

Fraud

The Central African Republic government has established a diamond reporting and monitoring scheme, but it is not well implemented or effective. Accurate estimates of total diamond production do not exist, because production of many diamonds is unreported and these diamonds are sold to illegal buyers, thus avoiding taxation and not contributing to government revenues. Fraud (in terms

¹ This figure includes full-time workers as well as part-time workers, who only work part of the year—moving between subsistence agriculture and diamond mining.

² Hinton and Levin (2010) estimate that 2.8 million people benefit from artisanal diamond mining.

of unreported sales to unlicensed buyers and exports through illegal channels) remains prevalent, preventing the government from collecting all the revenues it is due from the sector; this both reduces its general revenues and deprives it of the resources needed for strong oversight, regulation, and support of the industry. Because of the very nature of fraud, there are no reliable estimates of illegal sales and exports, but it is considered likely that between one-quarter and one-half of all diamonds produced in the Central African Republic are sold illegally. Many of these diamonds will be of a higher quality than the average diamonds sold through legal channels; thus, illegal diamond sales are likely to be the same as or even higher than legal exports in terms of value. The report presents an indicative analysis of diamond fraud based on available data, with two scenarios regarding the amount of production sold illegally and the quality and price differentials between legally and illegally sold diamonds. A diamond industry value chain was prepared which indicates that, out of a total export value of \$63.4 million including taxes, 60 percent is the mining value, 14 percent is value added (including profit) at the collector stage, 15 percent is value added (including profit) by the buying houses, and 11 percent is taxes.

Reform Measures

The government of the Central African Republic is taking steps to improve the situation and participates in various international programs that aim to reduce diamond smuggling, such as the Kimberley Process Certification Scheme, and to improve sector governance, such as the Extractive Industries Transparency Initiative. The government has also introduced a number of diamond sector reforms, including enacting a new mining code in 2009 with the aim of regularizing sector activity and establishing the Special Diamond Anti-Fraud Unit (Unité Spéciale Anti-Fraude, USAF). Despite these efforts to improve the institutional and legislative framework, the mining sector continues to suffer from shortages of capital, and diamond mining is falling short of providing the income and economic benefits that should accrue to local communities and the revenues that should accrue to the government.

Comprehensive Approach

This report aims to support the efforts of the government of the Central African Republic to reduce poverty by presenting a comprehensive approach to improve the performance of the diamond industry by (1) reducing fraud and thereby increasing government revenues from the industry and (2) improving the contribution of the diamond industry to local communities. The approach proposes improvements aimed at the activities of mine workers and diamond buyers together with improvements regarding the artisanal diamond legal and fiscal regime and the strengthening of institutional capacity and arrangements for oversight of the industry. It is based on a comprehensive approach that recognizes the importance of (1) providing easily accessible and free or very low cost registration and simple reporting arrangements for artisanal miners (thereby making registration more accessible, taking into account the remote locations, low incomes, independence, and lack of literacy of many artisanal miners); (2) putting in place a fee regime that is affordable and a fiscal regime that is in line with and competitive with the level of taxes and fees in nearby diamond mining countries (thereby reducing the incentives for unreported production and diamond smuggling); (3) providing registered artisanal miners with access to training and technical assistance

while at the same time increasing penalties for miners who do not register (thereby providing an incentive to miners to register); and (4) supporting the socioeconomic development of artisanal mining communities and reducing the health, safety, social, and environmental risks, especially for the most vulnerable, which includes women and children, and taking measure to share the benefits more equitably between men and women in the communities (thereby providing greater benefits to mining communities from artisanal mining and contributing to reducing poverty in the Central African Republic). The report also provides a preliminary outline of an artisanal mining policy paper (*déclaration de politique minière*) which could be prepared by the government based on the comprehensive approach proposed in this report and which could be a precursor to part of or an overall mining policy for the Central African Republic.

Improvements Aimed at Artisanal Miners and Mine Workers

There are presently no reliable estimates of the number of artisanal miners and mine workers, and the current registration system is not very effective because many miners and mine workers are unwilling or unable to register and/or pay the registration fees. In 2009 only 950 artisanal miners were reported to be registered. In addition, a large amount of diamond production and sales are unreported because production and sales books are not well designed and their use is not well enforced. A pilot project on miner registration is being undertaken at one site by the Property Rights and Artisanal Diamond Development program, which is funded by the U.S. Agency for International Development. Taking into account the findings of the pilot project, what is needed is to undertake a census across all of the mining localities to both identify and register miners and mine workers and their mining sites, and to improve the performance of miners through training and improved access to capital. Increased registration of miners and improved design of production and sales books will facilitate better recordkeeping and help reduce unreported production and sales. A well-designed and well-organized training program can yield many benefits in terms of improving health and safety, improving the income of mining communities and the living conditions of mine workers and their families, and positioning miners to be better able to seek formal rather than informal financing of their operations which are generally very modest, with most workers earning less than \$2 per day.³ Also, as more miners become registered and better production and sales records are kept, efforts should be made to encourage commercial banks to prefinance the diamond mining of at least some of the better established cooperatives and larger artisanal mining activities. Another financing possibility is to encourage private companies and entrepreneurs to purchase mechanized equipment which could then be leased to artisanal miners and cooperatives that are in a stable location and can demonstrate a track record of profitable production. This can set in motion a “virtuous circle,” with miners improving their access to more affordable financing, which in turn enables them to operate more productively and efficiently, leading to higher incomes and the ability to repay their initial financing and borrow more. Such miners would also set an example for others to follow. Not only would miners have increased income, but diamond production and purchases would be more likely to stay in the formal sector—which is to the benefit of the government and its tax income.

³ Hinton and Levin (2010) estimate the aggregate average incomes for artisanal miners and mine workers to be \$723 per year. The income of artisanal miners is estimated to be about five to six times that of mine workers.

Improvements Aimed at Buyers

The diamond buying markets in the Central African Republic are highly fragmented, and good information is not readily available to buyers. Markets are most efficient when accurate and reliable information is available to buyers and sellers about prices and volumes. The situation in the legal market for licensed buyers is further deteriorated by the presence of numerous illegal buyers. Two of the most important issues for the buying sector are, first, to ensure that all licensed traders have identification cards and use purchase books; and, second, to make diamond trading more transparent and improve the information available to the licensed traders regarding diamond sales. Improving the quality of available information is not simply a matter of information management and dissemination, but will also involve a fundamental reorganization to bring a clear structure and order to formal diamond trading activities. Both collectors and buying houses representatives should be allowed to purchase diamonds at the mining sites; all other sales should be conducted at a weekly market in a single building—a diamond buying center—in each mining area. The access of the buying houses to the mine sites should be to the advantage of the miners, but even so there be some resistance from the miners to only being able to sell diamonds in the local town one day a week at the diamond buying center. However, this weekly arrangement will provide all parties with a secure environment and support services (banks, secured goods transporting companies, and so on) available in one place. The buying houses may also resist the need to change how they operate their regional buying offices in the mining towns, since all diamond buying and selling would be conducted one day per week in one location. However, by limiting sales transactions to the weekly market, it would also help to identify more clearly illegal sales activities in the mining towns, which will increase the prospects for the government to successfully implement its measures to reduce illegal sales and increase officials exports and taxes. Similar arrangements should be introduced at Bangui, with a weekly market held in a commercial diamond center at which all purchases by all buying houses take place. The results of the diamond sales and purchases at all of the weekly markets would then be made public in a timely manner.

Improvements Regarding Taxes and Prices

There are two key fiscal and pricing reforms needed if industry operations are to improve and fraud is to be reduced. First, the differential between the total tax take in the Central African Republic and that in neighboring countries needs to be reduced for higher value, large diamonds, as these are the ones most likely to be subject to fraud. Second, the present practice of using an administrative price list for diamond export tax assessment should be replaced; instead, the Office for Valuation and Control of Diamonds and Gold (Bureau d'Évaluation et de Contrôle de Diamant et d'Or, BECDOR) should use prices closely linked to prevailing world diamond prices. In this way, situations where the administrative list price is substantially out of line with market prices would be avoided.

Improvements Aimed at Institutional Capacity

While policy, legislative, and regulatory improvements can be made, they will only be of any real value if they are accompanied by successful implementation measures. It is very well known that institutional capacity is crucial to the success of any reform effort, but all too often it is the “missing

link” in the reform process. Furthermore, change does not come easily in a sector like artisanal diamond mining where many of the miners are in remote locations and where both miners and buyers may resist initiatives that would change their behavior. Thus, if the artisanal diamond mining sector is to be improved and strengthened, it will require stronger capacity and capability and greater resources, budgets, and staff than are presently available to the key institutions that have oversight of the diamond industry—in particular, BECDOR and the regional offices of the Ministry of Mines.⁴ It will also require improved governance for the sector institutions. Improved capacity for BECDOR means ensuring that diamond evaluators are fully up to date in their training, especially regarding issues such as diamond coloring, and that they are rotated on a regular and systematic basis to ensure strong independence. Most importantly, improved capacity will also involve examining the overall resources and staffing for BECDOR and the Ministry of Mines, and especially for the ministry’s regional offices to enable them to have a strong presence in the field and to be able to digitally record and transmit all the information they collect. It further entails improving the Ministry of Mines communications and public relations with the various stakeholders in the diamond industry. And, as outlined in the next paragraph, institutional strengthening is also needed to reduce fraud.

Reducing Fraud

The widespread nature of unreported production and illegal sales and exports in the diamond sector reflects a broad range of factors, including a lack of both the willingness of the industry to operate in a fully legal manner and the motivation and commitment on the part of government agencies to have the industry operate within a legal and regulatory framework. There are institutional weaknesses in law enforcement and a lack of proper mechanisms to combat fraud in the diamond trade. Outside of the country, there is also a lack of commitment by some international buyers to crack down on diamond smuggling and a lack of commitment to take coordinated action by some governments of other countries. The proposal to eliminate miner registration fees and enable all miners to obtain registration cards at the mining sites along with the required books in which to record diamond production and sales—all for no fee and in a highly convenient manner—should eliminate any legitimate opposition to registration. Eliminating the registration fee will not in itself reduce fraud, but it will create a situation in which the government can much better enforce both the registration of miners and the use of production and sales books by miners—which will make it more difficult for miners to have unreported production and sales and thus less fraud throughout the value chain. Miners will need an incentive to register, and it will be important to emphasize that registration brings with it the benefit of access to training and that, once a new registration system is in place, there will be far fewer unregistered miners—and those that remain unregistered will face stiffer penalties, since miners will have no excuse not to be registered. Reducing fraud will also require a very close policing of both miners and collectors to ensure that they do not sell to unlicensed buyers, especially any from nearby countries. Establishing a strong chain of custody through the purchase and sales books of the collectors and buying houses’ regional offices will be paramount. The government would then be in a strong position to prepare and enact legislation

⁴ For convenience, the Ministry of Mines, Energy, and Hydrology is referred to as the Ministry of Mines in this report.

declaring diamonds (and possibly also gold) as a “strategic resource of the national economy” with substantial penalties for illegal sales, smuggling, and tax evasion. A Special Diamond Anti-Fraud Unit was created by law in 2009 to operate across the country and eventually replace the present mining brigades. As part of its anti-fraud activities, the government should make sure USAF’s mandate and staffing includes three key roles as follows. First, it should organize a national information network whereby individuals could report fraud (illegal transactions and smuggling). Second, it should investigate allegations of fraud and operate as a mining police force with the authority to apprehend those accused of fraud and hand them over to the national police for prosecution. Third, at the international level, it should seek to establish partnerships and operate with the collaboration of competent entities in relevant countries. Building USAF to be an effective institution will be one of the most expensive of the reforms proposed, but is also one of the most crucial.

Improving Impacts for Women and Other Vulnerable Groups

An important element of any poverty reduction work is to recognize the most vulnerable groups in a community which include women, children, youth, the sick, and the elderly. Women make up half or more of the mining communities residents and can also be a significant part of the artisanal mining workforce—although the numbers in the Central African Republic are not known because the statistics for miners and mine workers are not disaggregated by gender. There are also no statistics about the number of children working at artisanal mine sites. The distribution of the benefits and risks from artisanal diamond mining within a remote mining community is generally highly skewed, with the vast majority of the employment and income benefits going to men, whereas the risks (which include health, social, environmental, economic, and cultural risks) fall largely on women and the families they care for. Faced by low incomes and poverty, children become part of the mining workforce to the detriment of their health, safety, education and future prospects. Women are often called on to fill many roles including caregivers for men who are injured through artisanal mining, subsistence farmers providing food for their families and, depending on the season, mine workers supplementing the family income. There are also many girls and young women who migrate to mining areas in search of employment and find themselves resorting to prostitution to earn a living. Thus, recognizing the gender-related impacts and the impacts on vulnerable groups such as women, children, and youth is a crucial element of any artisanal mining poverty improvement strategy.

Reducing Poverty and Managing Social and Environmental Risks⁵

Along with reducing fraud and increasing government taxes, diamond industry reform can also contribute to reducing poverty through higher diamond-related wages and incomes for miners and mine workers; more indirect and spin-off employment; and better health, safety, and environmental performance. Little has been done to increase the positive impacts for local communities, and despite the size of the industry and volume of diamond sales, local communities see only small benefits. Lacking are initiatives to improve the potential benefits of artisanal mining (which are

⁵ See World Bank (2010), which provides an in-depth treatment of environmental management issues in the Central African Republic with a particular focus on the mining industry.

primarily direct and indirect employment and income) and to reduce the potential harm and risks caused by artisanal mining (which include not only the health and safety risks directly associated with mining, but also health and safety risks in the community associated with environmental harm, poor water quality, unsanitary living conditions, and lack of law and order). Artisanal mining areas have an advantage over many other rural areas in terms of a cash economy associated with mining, the development of townships in well-established artisanal mining areas, and (sometimes) better transportation links to population centers. The return of part of the fees and possibly also diamond taxes to the mining localities could support community-related development initiatives. Given these conditions, capital could be mobilized to support other employment opportunities in these areas, such as agriculture or cottage industries. These opportunities can be increased through local planning efforts, especially those that could attract possible sources of capital such as banks or microfinance schemes. Local mining area committees composed of local government officials, community leaders and representatives, including women's groups' representatives, should be established to design and implement socioeconomic programs to improve living conditions in the mining areas. Once local priorities are developed in this manner, they could be supported by the government channeling back some of the artisanal mining fees and taxes to local mining communities.

Artisanal Diamond Mining Policy Paper

The approach proposed in this report represents a very ambitious and wide-ranging agenda which will require considerable resources and staff if it is to be undertaken. The Ministry of Mines should begin by preparing a policy paper (*déclaration de politique minière*) that outlines the program of reforms to be undertaken with an indicative timetable and budget. An example of what such a policy paper might contain is presented in appendix A. Ideally, the government should prepare an overall mining sector policy which would cover commercial-scale and artisanal mining for all minerals and gemstones. The policy for artisanal diamond mining would then be part of that overall policy. However, given the importance of artisanal diamond mining to so much of the country's population, the government could start by preparing a stand-alone policy for artisanal mining. The policy paper should then be presented to the cabinet for approval. The policy paper could be prepared within six months if a concerted effort is made. The present report, or sections of it, could be the basis for a roundtable in Bangui and at each of the mining towns where Ministry of Mines regional mining offices are located so as to obtain initial input from miners, buyers, and other interested parties before the policy paper is submitted to the cabinet. Once approved by the cabinet, the policy paper could be presented to the Central African Republic's development partners to determine what types of support would be available for preparing an implementation plan and then implementing the policy.

Interministerial Committee

A high-level interministerial committee, chaired by the Minister of Mines, should be appointed by the cabinet to oversee the preparation and implementation of the policy paper and to be the final authority regarding interministerial issues. The committee could be supported by a small program secretariat located within the Ministry of Mines and staffed by ministry personnel. Early on, the secretariat should prepare a public announcement and publications to inform the miners

and buyers and the general public about the policy paper. The secretariat should take the lead in coordinating the preparation of the legal instruments that will be needed to accomplish some of the reforms, including drafting necessary amendments to the mining code to develop a commercial diamond center as part of the Precious Metals Marketing Center in Bangui and to establish regional buying centers in towns close to diamond production sites. A phased approach should be taken for implementation of the census and registration, and the areas to be covered first should be selected on the basis of two criteria: (1) those with the highest concentration of miners and the highest production and/or (2) those where smuggling and fraud are considered to be most prevalent. The diamond production and sales and purchase books will need to be carefully designed to ensure that they are reliable, and a related information system will need to be developed for recording the results of book checks and of the reconciliation of production and purchase records. According to the Property Rights and Artisanal Diamond Development program, areas in the southwest mining region such as Mambere-Kadei, Sangha-Mbaere, and Lobaye could fulfill the above criteria.

Training Program

Development of the training and education component of the policy implementation will need the support of educational institutions to provide the training. Training priorities should be linked to those areas in which registration is occurring. The regional offices of the Ministry of Mines would have a key role to play in ensuring that the training is designed to fit local needs, that the miners are aware training is being provided, and that the training is delivered in an appropriate and readily accessible manner. The ministry should consider preparing and implementing three or four pilot projects in mine exploration areas.

Funding

The approach calls for a phased approach to implementation, which would help stretch out costs and phase them over several years. If the proposed reforms are successful in reducing fraud and thereby increasing government revenues, some of these funds could be made available to help meet recurring costs as well as to support community-related initiatives. If government revenues do not increase, however, it will likely be very difficult for USAF and the Ministry of Mines regional mining offices to operate effectively.

1 Structure of the Central African Republic's Diamond Industry

This chapter provides an overview of the structure of the Central African Republic's diamond industry which primarily consists of **artisanal miners**, who are the owners or lease holders of the plots of land that are being mined and who organize the mining; **mine workers**, who do the mining; **collectors**, who buy diamonds from the artisanal miners and then sell them to the diamond buying houses; and **diamond buying houses**, which buy diamonds and are licensed to export them.

Artisanal Miners

Artisanal miners are the owners or lease holders of the plots of land that are being mined and are required to register and pay a registration fee (*patente*). Since 2007, the *patente* costs increased from 35,050 to 48,850 CFAF (about \$100 per year) and the miners must also purchase a production book (2000 CFAF) and a minimum of five mine workers cards (which are 2000 CFAF each). Thus, the total cost of registering is almost 60,000 CFAF, about \$130. While artisanal miners are required to register, the vast majority do not do so and instead operate illegally. In 2009, 970 miners were reported to have registered and paid the registration fee out of an estimated 80,000 miners. It was reported that on average only about 9 percent of artisanal miners were officially registered during the period 2000–09.¹ Another estimate puts the “formalization” of artisanal miners and mine workers at only 2 percent in 2010 (see Hinton and Levin 2010). Artisanal miners hire the mine workers and provide them with the tools, equipment, and supplies needed to do the digging and the gravel washing. Those artisanal miners who do register are issued production books in which they are required to record their production. However, this system is not well enforced, and the production books are designed such that pages can be removed or changed without easy detection. For the most part, artisanal diamond mining is not a highly profitable activity. Even at larger sites, it provides little better than a modest living for the artisanal miners and their workers; at smaller sites, artisanal mining is often only a part-time or seasonal activity.

Sales. Artisanal miners are permitted to sell their diamond production only to licensed buyers—that is, to collectors and to buying houses; these latter have regional buying offices in the mining areas and main buying houses in the country's capital, Bangui. In selling directly to the buying

¹ Estimate provided by Sebastian Pennes, Property Rights and Artisanal Diamond Development program, based on data received from the Ministry of Mines and the Ministry of Finance. (Note that, for convenience, the Ministry of Mines, Energy, and Hydrology is referred to as the Ministry of Mines in this report.)

houses in Bangui, artisanal miners are required to prepare packages of diamonds and have their weight, price, and quality checked by the mining brigades or regional mining offices, which must give their authorization for the diamonds to be transferred to Bangui. In Bangui, the packages are again checked and approved by the government's Office for Valuation and Control of Diamonds and Gold (Bureau d'Évaluation et de Contrôle de Diamant et d'Or—BECDOR) before they can be sold to the buying houses.

Financing. Artisanal miners must be able to finance wage payments and costs of equipment and supplies in advance of receiving income from the sales of diamonds. But most artisanal miners have a very limited capacity to finance their mining operations. Thus, most financing is generally provided by the diamond buyers—either the collectors or, in some cases, the buying houses. The amount of prefinancing provided depends on the size and prospects of the digging, and the relationship and degree of trust between the backer and the miner. These prefinancing arrangements between the artisanal miners and their backers are generally made verbally. The arrangement obligates the artisanal miner to sell to whomever provided the prefinancing, and makes the miner highly dependent on his backers. The quicker the miner can sell his diamonds, the quicker he can repay his debt—correspondingly, the longer it takes to sell the diamonds, the higher the cost of the financing. The prefinancing is repaid as a deduction at the time of diamonds purchase—generally at advantageous terms to the diamond buyer, thereby reducing the overall price of the product. A financier will of course want to inspect the operations they are financing, but the law prohibits representatives of the buying houses from entering the mining sites. This prohibition does much to discourage prefinancing by the buying houses, creating more opportunities for collectors. While collectors are the largest source of financing for artisanal miners, artisanal miners also sell diamonds and obtain funding informally through local shops and businesses and from money lenders. A large fall in world market diamond prices in 2008–09 following the global financial crisis squeezed the collectors and buying houses alike, causing prefinancing to shrink.

Banks. The Central African Republic's banking system consists of the National Central Bank, the Bank of the Central African States, and several private commercial banks. The commercial banks have been reluctant to move into remote areas because of law and order, security, and other problems in the interior of the country. However, these banks could be an important source of capital for the better artisanal diamond operations, and larger operations such as artisanal diamond cooperatives, and could enable miners not only to break free of disadvantageous prefinancing arrangements but also to begin to invest and upgrade the efficiency and scale of their operations.

Mine Workers

Full-Time Workers. Mine workers (also known as diamond diggers) are the laborers who are directly involved in digging and washing gravel and recovering diamonds. They are hired by the landowners/lease holders, and generally work in teams using rudimentary tools (shovels, sieves, and so on) to extract and wash the gravel. The Ministry of Mines estimates that there are about 80,000 artisanal miners, each of whom employs an average of about four laborers which would indicate a mining workforce of about 400,000. The hiring arrangements between the landowners/lease holders and the mine workers are generally not subject to written contracts but are verbal agreements undertaken in the presence of village elders and leaders; this reflects both customary

arrangements and the lack of literacy on the part of most workers. The landowners/lease holders usually hire people from their villages, often relatives, and the verbal agreements are generally respected by both parties. The workers are typically supplied with tools and equipment by the landowners/lease holders, who work as foremen on the site. The period of employment varies from site to site. The workers receive a daily wage, plus an agreed share of the diamond sales. When the stones are extracted, the worker's share is calculated and paid as a function of the price of the diamonds. Wages are usually very low, estimated at around CFAF 500–1,000 (about \$1–2) per workday, depending on the diamonds found. The mining workers at this level, along with the support workers, are the most vulnerable economically and socially in the diamond industry.

Registration. Mine workers are required to register; they obtain their registration by filling out a registration card with the name, number, and address of the artisanal miner. The cost of the mine workers identity card is 2000 CFAF (about \$4.50). Few workers register, and many of the few who do require third party assistance to fill out the card because they are illiterate. Due to the collapse of diamond prices in 2008 and 2009, the number of mine workers is likely somewhat lower than the 400,000 estimate cited above. In the absence of an effective registration system, however, any estimate must be regarded cautiously.

Artisanal Diamond Miners Cooperatives

To help improve the working conditions and income of artisanal diamond miners and their workers, Central African Republic mining laws permit the formation of artisanal miners cooperatives consisting of 10 or more artisanal miners. The cooperatives are required to record their output in production books and can sell to the same categories of buyers as individual artisanal miners.

Technical Assistance. Cooperatives are eligible for government-supported technical and financial assistance aimed at strengthening the skills and capacities of the miners and workers and improving their operations. The Ministry of Mines uses 1 percent of its diamond export sales tax receipts to fund these technical assistance programs. Beginning in 1994, the government looked to revamp the cooperatives by allocating them CFAF 100 million (about \$200,000)—50 percent of the Mining Promotion Fund at that time—as financial aid to support their operations.

Direct Exports. Artisanal miners cooperatives have a significant advantage in that they are allowed to export their diamonds themselves if the value of the package for export exceeds CFAF 20 million (about \$40,000). (The 2009 revisions to artisanal diamond mining regulations reduced the minimum export package size from CFAF 40 million—about \$80,000). All of their export packages must go through a local approval procedure in order for them to be transferred to Bangui. At Bangui, the diamonds are inspected by BECDOR, which collects the export taxes on the diamonds before they are sent to buyers abroad.

Higher Value Diamonds. The share of the artisanal miners cooperatives in the country's diamond exports is usually around 0.1 percent by ct quantity. A notable exception occurred in 2006, when the cooperatives exported 2.745 ct, which represented 0.65 percent of the year's national total diamond exports. In terms of value, the cooperatives' 2006 exports were worth \$1.46 million, which was 2.5 percent of the national total of \$59.10 million. This indicates that the cooperatives were exporting much higher quality diamonds on average than was the rest of the industry.

Cooperatives Union. Cooperatives have much greater potential than individual artisanal miners to demonstrate a track record and seek lower cost, more formal financing. But, there is presently little momentum among the miners to see more cooperatives established or existing cooperatives expanded. The National Union of Central African Mining Cooperatives (Union Nationale des Coopératives Minières de Centrafrique, UNCMCA) which is based in Bangui could play an important role by engaging with possible sources of private sector financing such as commercial banks to make the case for making some initial funding available to selected cooperatives on a trial basis. The cooperatives union could also pull together information on cooperatives and start publishing and disseminating clear lists of location and production data to foreign investors who might take an interest in supporting the cooperatives and foreign buyers to whom the cooperatives can export. This will involve UNCMCA establishing a stronger presence in the field in order to assist some of the better cooperatives which do not know how to communicate abroad.

Mining Companies

The Central African Republic government has sought to encourage the development of commercial-scale diamond mining, but the results of these efforts have so far been disappointing, and commercial companies today account for less than 1 percent of the country's total diamond production. While these companies have the potential advantage of large-scale commercial production, the nature of the alluvial deposits in the Central African Republic tends to be most amenable to very low levels of mechanization; thus, the benefits of large capital investments are hard to realize. As of June 2009, four companies prospected for diamonds, three for gold, and one for uranium; two licensed companies were not active (table 1.1). The companies were all current in their tax payments. Some export diamonds and gold, but it is not certain if these exports were from their own production or were bought from other miners.

Table 1.1 Licensed Mining Companies and Their Status as of June 2009

Company	License	Status
Aurafrique	Exploration	In operation
Axmin	Exploration	In operation
Dimbi Diamond	Exploration	In operation
Etoile Diamant	Exploration	Not in operation
Gem Diamond	Exploration	In operation
Good Speed	Exploration	Not in operation
Kamach Mines	Exploration	In operation
Mossoro Mining	Exploration	In operation
Or Oubangui	Exploration	In operation
Uramin/Areva	Exploitation	In operation

Source: Ministry of Mines, presented in Boksenbojm 2010.

Collectors

Collectors, as their name indicates, are collection agents who act as intermediaries between the tens of thousands of artisanal miners and the handful of diamond buying houses. Generally, the collectors not only purchase the diamonds but also provide essential financial support to the artisanal miners by prefinancing them and, in some cases, by supplying them with the food, supplies, and equipment needed to carry out their mining activities. The collectors and their agents maintain a regular presence at the mining sites and follow the progress of mining activities. Collectors are not permitted to export and must sell their diamonds to the buying houses.

Registration. Collectors must be licensed. To obtain a collector's license, the applicant must be of good moral character and to have never been found guilty of breaking mining law or regulations or of any other criminal charges. The applicant also should not be a shareholder or employee of a mining company or of the buying houses, a cutter, a jeweler, or a member of a miners cooperative.

Diamond Purchases. Each diamond purchase transaction needs to be undertaken using the purchasing book issued by the mining authority. The collectors sell the diamonds either to a buying house's regional buying center or directly to the buying house in Bangui. In order to transfer their diamonds to Bangui, collectors must go through the same local approval procedures as outlined above for the artisanal miners. The manner in which collectors operate varies from one artisanal diamond-producing African country to another, and even from one site to another. In most African countries, collectors have the right to buy diamonds at the mining sites or at a legalized purchase point. The Central African Republic system of having collectors record their business transactions in sales notebooks has not caught on in the other artisanal diamond-producing countries. Collectors have the exclusive right to purchase the products from the operations that they are financing.

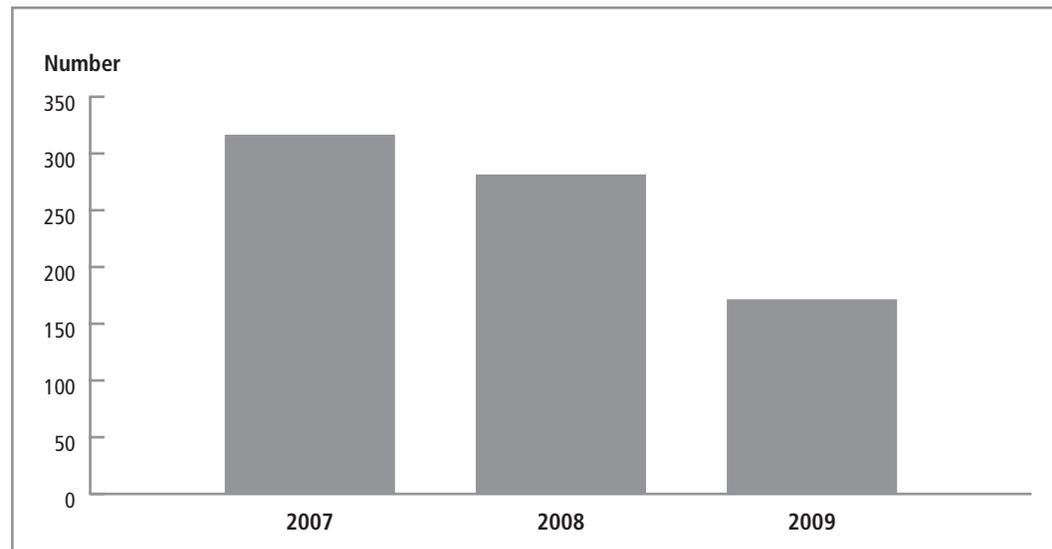
Financing. Collectors are usually financed by the buying houses, although a minority is financed by foreign or local financiers; some use their own funds.

Recent Decline. The 2008–09 fall in diamond prices on the international market resulted in declines in buying house funding for mining operations and in diamond purchases. In 2000 there were 472 licensed collectors but that number has declined to 187 in 2009 with about half the decline taking place from 2007 to 2009 (figure 1.1).

Profitability. A significant portion of the national diamond production passes through the hands of the collectors, who are reported to make a substantial profit margin on sales, which are well in excess of their costs.

Sales between Collectors. In the past, a hierarchy of collectors had developed whereby a small collector would monitor a mining site and buy the diamonds, and then sell them to another collector. This collector would in turn resell the diamonds to a larger collector, who would assemble a package large enough to resell to the buying houses. This trade among collectors raised concerns, as passing the diamonds through several hands in this way meant that a profit was being made at each stage, driving up the cost of the diamonds and sometimes making them too expensive to sell to a buying house. These transactions are prohibited under the new 2009 code—a policy shift strongly opposed by collectors as an unnecessary constraint on the efficient operation of the Central African Republic diamond market.

Figure 1.1 Number of Diamond Collectors in the Central African Republic



Source: Boksenbojm 2010.

Diamond Buying Houses

The buying houses are the main actors in the diamond sector, given their financial strength and professional capabilities. The majority of buying houses in the Central African Republic are subsidiaries of or have strong links to diamond houses in Belgium, Israel, and the United Arab Emirates. They provide prefinancing for many of the collectors as well as some of the mines.

Registration. Only companies legally registered in the Central African Republic can obtain a diamond buying house license. To carry out diamond buying and export activities, a buying house must

- be approved by a cabinet decree based on a recommendation by the minister of mines, following which a signed approval is provided specifying terms and conditions of operation;
- have a minimum share capital of CFAF 50 million (about \$103,000) at the time of establishment of operations in the Central African Republic;
- establish, within one year from the date of signature of the approval, five subsidiary regional buying offices to buy diamonds from nearby production sites, use the purchasing books to register their transactions, and periodically transfer diamonds to their parent buying house in Bangui using prescribed local approval procedures;
- contribute to the training and retraining of local staff regarding the sorting, appraising, and marketing of diamonds;
- reach minimum monthly sales of \$1 million during the first three years, and subsequently increase to \$2 million thereafter;
- export parcels of diamonds to the above minimum value every month;
- provide a summary of purchase contracts corresponding to parcels to be exported 48 hours before shipment takes place—along with the separate purchasing vouchers and associated

diamond packages, package values, and buyer addresses—to BECDOR for verification and reconciliation regarding quantity and value;

- submit a quarterly turnover statement to the Ministry of Mines identifying the collectors and artisanal miners from whom the relevant products were acquired.

Purchases. The buying houses have established subsidiary regional buying offices near most of the major mining sites in the Central African Republic in order to purchase diamonds locally either directly from collectors or, sometimes, from individual artisanal miners. These buying offices generally purchase diamonds at lower prices than those obtained in Bangui. These lower prices take into account the costs of managing the regional buying offices and in safely transporting the diamonds to Bangui; these latter costs include air transport from more remote areas or cars with armed escorts.

2008 Seizure and Closure. Over a dozen diamond buying houses were in operation in the Central African Republic as of 2007. In October 2008, however, the government closed nine of these for noncompliance with the law and regulations in effect, seizing their assets and working tools. After the closure and seizure of assets, five accredited buying houses remained, of which three—BADICO, SODIAM, and ADR—continued to operate in 2009.

Market Downturn. The system of prefinancing was disrupted by the recent world diamond crisis, which had serious effects on all diamond mining and marketing activities around the world, including in the Central African Republic. Diamond production has declined in the country, and the buying houses have had difficulty in realizing their mandated minimum monthly export sales. Furthermore, because BECDOR assessed taxes according to a schedule of diamond prices that became much higher than prevailing international market prices, the relative proportion of taxes and levies imposed on the buying houses increased, requiring them to mobilize more funds even as revenues have been shrinking and market prospects became highly uncertain.

Financing. The diamond buying houses need considerable financing both to prefinance mining production and collection operations as well as to meet their own outlays, operating costs, and tax payments. The buying houses are usually financed by their parent companies (in the case of a subsidiary), product buyers, own funds, or by raising foreign and local debt. Lenders can easily monitor their loans to and investments in buying houses—at least theoretically—because the buying houses and their regional subsidiaries are required to maintain complete and up-to-date financial recordkeeping.

Cut and Polished Diamond Market

The cut and polished diamond market is distinct from the rough diamond market, the components of which sector are described above and on which the remainder of this report focuses. The cut and polished diamond sector requires considerable marketing and investment strategies. Sales are generally made through multinational jewelry companies with long-term credit.

National Diamond Office. The first diamond-cutting unit in Africa outside of South Africa was created in the Central African Republic in 1964 under a partnership between the country's government and Diamond Distributors Inc., an American company. This National Diamond Office

has been in operation for close to 20 years, but has had difficulty being profitable. Even with some benefits provided by the state, the office has been unable to operate profitably.

Diamond Supply. The diamond-cutting shops in Bangui have had difficulty in obtaining a regular supply of rough diamonds. One of the most recent attempts in this market, the Daniel Jewelry Store, had to close down after only a few months of very limited activity.

Training School. Diamond cutting requires much skill, obtained through years of apprenticeship. Moreover, in the last 15 years, professional cutters have adopted new technologies that require highly sophisticated—and obviously expensive—computerized equipment. The Central African Republic expects to establish a diamond-cutting school to train diamond cutters and evaluators, among others. This training should, in the long term, encourage young interns to establish their own diamond-cutting shops using proper equipment. In the Central African Republic, licenses are required for both diamond cutters and diamond jewelers.

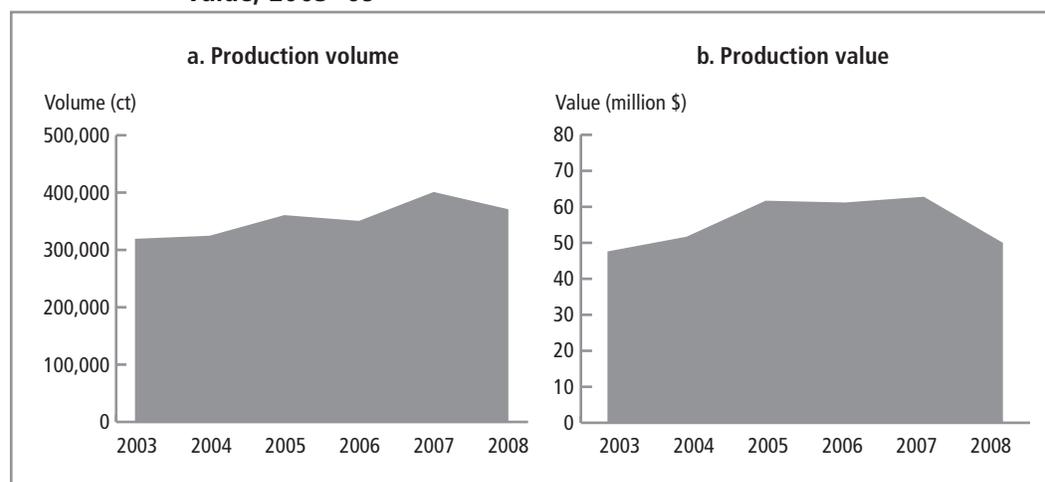
2 Diamond Markets, Prices, and Value Chain in the Central African Republic

Diamond Production

Artisanal diamond mining is the predominant mining activity in the Central African Republic. Diamonds were first discovered in 1914 in the territory that is today the Central African Republic, and production was first recorded in 1931. Only industrial companies were permitted to mine for diamonds until 1961, when a new mining law was enacted that legalized artisanal diamond mining; this industry has since expanded significantly. In 2009, officially recorded diamond exports accounted for about 40 percent of the country's total exports, and taxes on diamonds comprised 3.4 percent of total tax revenues. As discussed later in this report, it is likely that officially reported exports represent only about half of the total value of actual diamond production, with the other half—which mostly consists of higher value diamonds—sold to unlicensed buyers and exported illegally.

Trends. Diamond production in the Central African Republic was on a generally upward trend from 2003 to 2007 (figure 2.1 and table 2.1), but declined in 2008 because of the sharp contraction in the world diamond market.

Figure 2.1 Diamond Production in the Central African Republic by Volume and Value, 2003–09



Source: Boksenbojm 2010.

Table 2.1 Reported Diamond Production by Mining Site (ct)

Site	2003	2004	2005	2006	2007	2008	Total
Bangui ^a	121,833.89	92,158.30	135,655.76	162,240.79	214,552.43	220,553.82	946,994.99
Berberati	102,467.48	97,220.10	120,455.33	69,366.63	77,633.37	72,575.25	539,718.16
Boda	5,185.62	6,879.30	3,519.65	6,517.35	13,229.52	8,013.45	43,344.89
Bria	31,472.00	41,631.50	29,306.46	28,017.41	26,415.50	21,248.66	178,091.53
Carnot	48,523.73	61,657.09	60,292.91	57,614.31	44,790.00	35,419.00	308,297.04
Kembe	—	9,930.41	1,507.27	—	—	—	11,437.68
N'Dele	—	348.61	167.07	—	—	—	515.68
Nola	6,789.19	10,417.70	2,627.78	20,512.02	24,430.65	13,066.79	77,844.13
N'Zacko	2058.07	—	735.45	—	—	—	735.45
Samondja	3,114.64	4,499.36	6,439.02	6,369.09	—	—	20,422.11
Total	319,386.55	324,742.37	360,706.70	350,637.60	401,051.47	370,876.97	2,127,401.66

Source: BECDOR, presented in Boksenbojm 2010.

Note: — = not available.

a. These figures are for diamond purchases, not diamond production; consequently, they largely reflect production from other sites.

Production in the Central African Republic. Diamond deposits are found in many different parts of the Central African Republic. The largest producing areas are in the west from Bangui to Berberati and including Boda, Carnot, and Nola (figure 2.2). Mining also takes place in the east at Bria and Bangassou. Table 2.1 presents reported production data by mining area. Total reported production for the six years from 2003 to 2008 was 2,127,401 ct, which works out to an annual average production of 354,567 ct per year.

Sales in Bangui. The area by area statistics presented in table 2.1 are of limited accuracy. This is because the recorded production data indicate that from 2003 to 2008 almost 45 percent of the country's diamonds were mined in Bangui. The capital city is the main center of diamond trading and the only place in the country for legalized diamond exporting, but it is not a site of diamond mining. Rather, the production figures allocated to Bangui actually represent sales in Bangui of diamonds by miners and collectors to the buying houses. These diamonds were in fact mined elsewhere, but BECDOR, the government agency that oversees the diamond sector, records these purchases as "production" from Bangui. A breakdown of the sources of the Bangui diamonds is not readily available; thus, it is not possible to know the official production of diamonds at different sites throughout the country.

Diamond Prices

Diamond Prices. Producer diamond prices in the Central African Republic peaked in 2005 at an average of CFAF 76,461 per ct (about \$150 per ct); they have declined each year since, most sharply in 2008 at an average of CFAF 50,644 per ct (about \$100 per ct), as shown in table 2.2. Quality and size vary from site to site, which influences the export price for diamonds from different mining

Figure 2.2 Diamond Mining Sites in Central African Republic

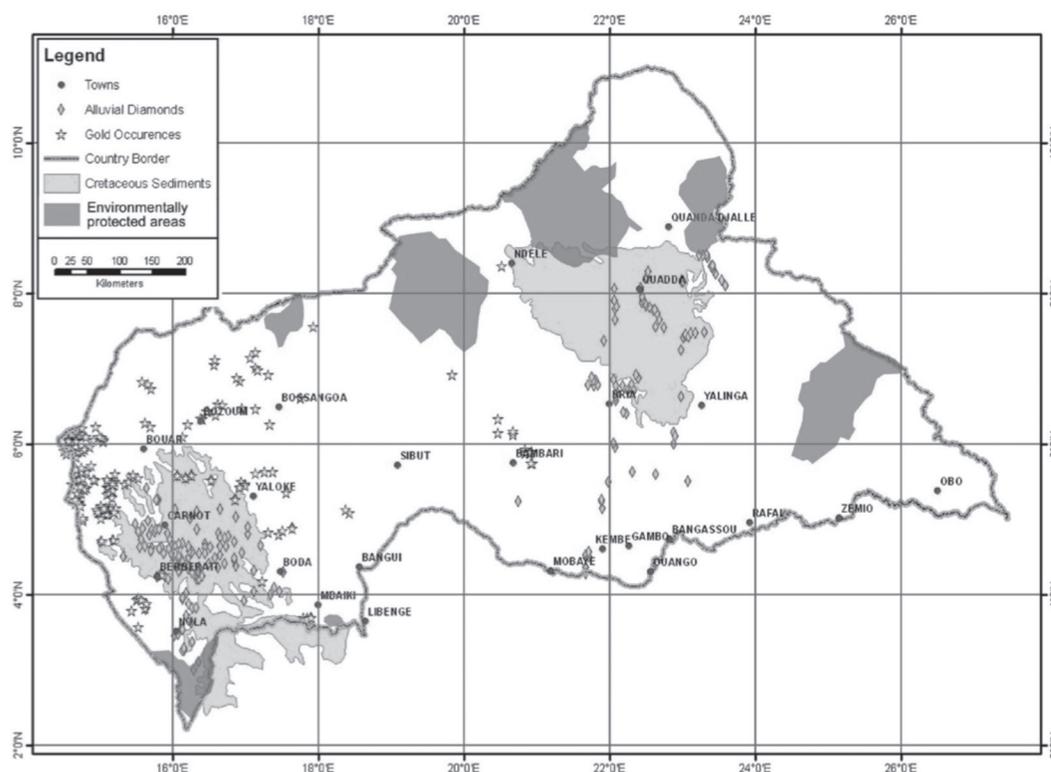


Table 2.2 Average Annual Producer Diamond Price by Mining Site, 2003–08 (CFAF/ct)

Site	2003	2004	2005	2006	2007	2008	6-year average
Bangui	75,541	68,258	86,192	85,258	71,832	49,295	71,070
Berberati	59,120	56,155	65,388	67,041	57,280	51,918	59,770
Boda	59,853	27,125	82,019	47,366	36,253	38,715	43,470
Bria	77,323	40,149	72,880	59,959	61,395	44,271	58,864
Carnot	63,345	61,727	75,411	70,653	74,415	54,214	67,306
Kembe	—	72,282	42,482	—	—	—	68,355
N'Dele	—	53,521	75,100	—	—	—	60,512
Nola	61,479	47,259	67,557	64,803	70,378	74,899	65,703
N'Zacko	111,336	—	130,532	—	—	—	116,389
Samondja	90,763	73,932	107,123	85,187	—	—	90,474
Annual average	68,469	58,432	76,461	75,123	67,354	50,664	66,111

Source: Boksenbojm 2010.

Note: — = not available.

areas. These prices fluctuate so much from year to year, they generally do not give a clear indication of which sites have the larger stones. The exceptions to this observation are the N'Zacko and Samondja sites, which have tended to produce the largest stones; no production was recorded at these sites for 2007 and 2008.

Price Differentials. There are considerable differences in the prices obtained—and thus in the respective profit margins—for the same quality diamond across the Central African Republic's value chain (table 2.3).

Table 2.3 Average Diamond Price Differentials across the Central African Republic Value Chain as of June 2009

Weight (ct)	Mining site		Mining town			Bangui buying houses			Price (CFAF)	Price (\$)
	Price (CFAF)	Price (\$)	Price (CFAF)	Price (\$)	Profit margin (%)	Price (CFAF)	Price (\$)	Profit margin (%)		
0.2	5,000	10	7,000	15	28	9,000	17	33	12,000	25
0.5	27,000	55	35,000	75	28	45,000	85	37	62,000	130
1.0	100,000	210	125,000	260	32	165,000	300	31	216,000	450
2.0	250,000	520	320,000	650	31	420,000	820	37	576,000	1,200
3.0	750,000	1,500	1,000,000	2,100	35	1,350,000	2,600	42	1,920,000	4,000
5.0	2,000	4,000	2,750,000	5,750	27	3,500,000	6,500	37	4,800,000	10,000

Source: Information obtained from several Central African Republic diamond sector operators and Antwerp and Tel Aviv diamond merchants, presented in Boksenbojm 2010.

In June 2009, the purchase price in Bangui for a 0.5 ct diamond was CFAF 45,000 (about \$85), the price in the towns neighboring the mining sites (generally considered equivalent to the collector's price) was CFAF 35,000 (about \$75), and the price at the mining sites was CFAF 27,000 (about \$55). These estimates indicate that the purchase price at the mining site is 60 percent of that in Bangui (table 2.4). For context, the selling price at Bangui is estimated to be CFAF 50,000 (about \$94)—about 10 percent above the Bangui purchase price.

Table 2.4 Average Purchase Price for a 0.5 ct Diamond across the Central African Republic Value Chain as a Percentage of the Buying Office Price

	Price		
	CFAF	\$	% of Bangui buying house price
Mining site price	27,000	55	60
Price at towns close to mining site	35,000	75	78
Bangui buying office price	45,000	85	100
Export (selling) price in Bangui	50,000	94	111

Source: Calculated from table 2.3.

Diamond Exports

According to data from BECDOR, recent diamond exports from the Central African Republic peaked at \$62.8 million in 2007 and declined to \$50.0 million in 2008. From 2003 to 2008, diamond exports from the Central African Republic averaged \$55.8 million per year (table 2.5). In the face of declining prices, the country's diamond exporters have—thus far, unsuccessfully—looked for new markets in other countries.

Table 2.5 Annual Diamond Exports of the Central African Republic, 2003–08 (million \$)

2003	2004	2005	2006	2007	2008	Total	Annual average
47.6	51.7	61.7	61.2	62.8	50.0	335.1	55.8

Source: BECDOR, presented in Boksenbojm 2010.

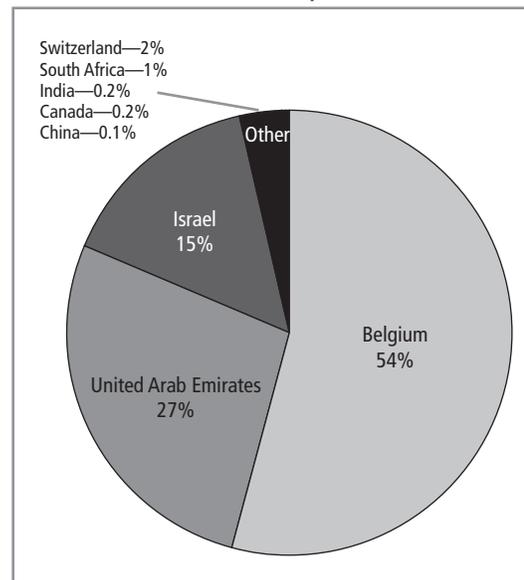
BECDOR Administrative Diamond Prices. As noted earlier, for purposes of calculating export taxes, BECDOR uses an administrative price list rather than a market price. Table 2.6 compares BECDOR list prices with world prices.

Export Markets. Belgium is the single largest market for Central African Republic diamonds, accounting for 54 percent of exports in 2008. Other important markets are the United Arab Emirates and Israel. Together, these three markets accounted for over 96 percent of Central African Republic exports in 2008 (figure 2.3).

Diamond Value Chain

A value chain has been estimated for legal sales of the Central African Republic diamond industry. Taking the annual average production of 354,567 ct from the data in table 2.1 and annual average exports of \$55.8 million from table 2.5 yields an average export price of \$157.30 per ct. Of the various diamond weights sold, the 0.5 ct price of \$130 per ct is by far the closest to this average export price. Using the price differentials for the 0.5 ct diamond in table 2.4 yields the buying and selling prices in table 2.7.

Figure 2.3 Main Export Markets for Central African Republic Diamonds, 2008



Source: KP 2008 statistics, presented in Boksenbojm 2010.

Table 2.6 Comparison of BECDOR List Diamond Prices with Tel Aviv and Antwerp Market Prices, by Diamond Volume and Quality (\$)

Volume (ct)	First choice ^a	Z A ^b	Off-color spot ^c	Bloc ^d	Price of first choice in Tel Aviv and Antwerp	
					End 2007	June–July 2009
30	6,100	5,400	—	—	18,000	9,000
25	5,700	4,600	—	—	17,000	8,000
20	5,200	3,700	—	—	15,000	7 700
15	4,600	3,300	—	—	12,000	7,000
10	3,300	2,900	—	—	9,000	6 500
9	3,000	2,600	—	—	7,000	5 700
8	2,700	2,400	—	—	6,500	4 700
7	2,600	2,100	—	—	5,000	4 400
6	2,300	1,800	—	—	4,500	3 500
5	1,900	1,500	—	—	3,500	2 800
4	1,300	1,000	600	450	3,000	2 300
3	1,150	1,000	600	450	2,000	1 700
2.5	950	800	400	350	1,400	1 100
2	800	650	350	250	1,100	900
1.5	600	500	250	200	700	550
1	450	380	200	150	550	400
0.75	300	230	110	80	400	250
Mixed	180	150	110	80	220	160

Source: Boksenbojm 2010.

Note: BECDOR's classification of stones smaller than 4.85 ct is done by package; diamonds over 4.85 ct are analyzed piece by piece. — = not available.

a. First choice diamonds are flawless, of excellent color (D, E, or F—colorless—on the international diamond grading system) and good shape.

b. Diamonds with very small impurities, good color (G, H, or I—nearly colorless), and good shape.

c. Diamonds with slight impurities, very faint to detectable color (J, K, or L), and good shape.

d. Flawed, colored diamonds of extended, broken, or flat shape.

Table 2.7 Average Estimated Diamond Prices along the Value Chain

Location	2003–08 average price (\$)	% of Bangui buying house price
Mining site	94.40	60
Towns close to mining site	122.70	78
Bangui buying house	140.00	100
Export (selling) price in Bangui	157.30	111

Source: Consultant estimates.

For the purpose of value chain analysis, an estimated annual diamond production for the Central African Republic of 360,000 ct has been used (rounding up from the 354,567 ct derived from the data in table 2.1). Also from the data in table 2.1, 45 percent (162,000 ct) of the country's recorded diamonds are purchased in Bangui by buying houses, with the remaining 55 percent purchased either at the mining site or in nearby towns. Data are not available for the distribution of sales for the miners (by collectors, the regional buying offices, and the buying houses in Bangui) or for the collectors (by the regional buying offices and the buying houses in Bangui).¹ It is widely assumed that the bulk of miners' sales are to collectors; for the purpose of the value chain analysis, an estimate of 70 percent (252,000 ct) has been used for miners' sales to collectors, 20 percent (72,000 ct) for their sales to the regional buying offices, and 10 percent (36,000 ct) to the buying houses. In order for 45 percent of the diamonds (162,000 ct) to be sold in Bangui, half of the collectors' diamonds would need to be sold to regional buying offices (126,000 ct) and half to buying houses in Bangui.

Table 2.8 presents these estimated diamond sales; table 2.9 presents the value chain for legal diamond sales based on the data in tables 2.7 and 2.8.

Table 2.8 Estimated Diamond Sales at Different Points in the Value Chain

Seller	Buyer										
	Collectors			Regional buying centers			Buying houses			Total	
	Volume (ct)	%	\$/ct	Volume (ct)	%	\$/ct	Volume (ct)	%	\$/ct	Volume (ct)	%
Miners	252,000	70	94.40	72,000	20	122.70	36,000	10	140.00	360,000	100
Collectors				126,000	50	122.70	126,000	50	140.00	252,000	100
Regional buying ctrs							198,000	100	122.70	198,000	100
Total	252,000	70		198,000	100		360,000	100			

Source: Based on consultant estimates.

Note: For the purposes of the estimates, the regional buying centers transfer the diamonds they have purchased to their parent buying houses at the purchase price they paid to miners and collectors.

The value chain analysis thus finds that of a total export value of \$63.4 million including taxes, 60 percent is the mining value, 14 percent is value added (including profit) at the collector stage, 15 percent is value added (including profit) by the buying houses, and 11 percent is taxes.

¹ Since cooperatives are such a small part of the value chain, they are not considered separately but are instead grouped with the artisanal miners.

Table 2.9 Value Chain Analysis for Estimated Legal Central African Republic Diamond Sales

Entity/activity		Volume (ct)	%	\$/ct	Total value (million \$)
Miners	Diamond production	360,000	100		
	Sales	360,000	100		37.7
	To collectors	252,000	70	94.40	23.8
	To regional buying centers	72,000	20	122.70	8.8
	To buying houses	36,000	10	140.00	5.0
Collectors	Purchases from miners	252,000	100	94.40	23.8
	Sales	252,000	100		33.1
	To regional buying centers	126,000	50	122.70	15.5
	To buying houses	126,000	50	140.00	17.6
Regional buying centers	Purchases	198,000	100		24.3
	From miners	72,000	36	122.70	8.8
	From collectors	126,000	64	122.70	15.5
	Sales to buying houses	198,000	100	At cost	24.3
Buying houses	Purchases	360,000	100		47.0
	From miners	36,000	10	140.00	5.0
	From collectors	126,000	35	140.00	17.6
	From regional buying centers	216,000	55	At cost	24.3
	Export sales	360,000	100		
	Exports before tax	360,000	100	157.30	56.6
	Exports including taxes	360,000	100	176.00	63.4

Source: Consultant estimates.

3 Diamond Regulatory and Fiscal Framework

Legal and Regulatory Framework

Legislation. The Central African Republic's mining code was originally enacted in 1961. The organization and functions of the Ministry of Mines were established in 2004 by Decree 04.364. The mining law was revised when a new mining code (Law 09.005) was enacted on April 29, 2009; implementing regulations were issued that year as Decree 09.126. As in many other diamond-producing countries, one of the main objectives of the legislation in the Central African Republic is to ensure that all production, sales, and exports take place in the formal sector and are subject to tax assessment and collection. The requirements for obtaining licenses and the ownership, possession, transfer, exploitation, transportation, shipping, export, and processing of precious stones are subject to the mining code and its regulations.

License Types. The mining code defines the rights and obligations of the following participants in the diamond sector:

- Mine workers
- Artisanal miners
- Artisanal miners cooperatives
- Collector agents
- Diamond buying houses and their subsidiary regional buying centers
- Mining companies
- Diamond cutters
- Jewelers

Production and Sales Recording. Authorities in the Central African Republic have long given careful consideration on the ways and means of better controlling the diamond industry. A system of tracing diamonds from the mine to the point of export was established in the country in the early 1980s for all diamond mining (industrial, semi-industrial, artisanal) and was a forerunner of the Kimberley Process (KP) with its recommended procedures for internal monitoring of the diamond industry in each participant country. The key documents underlying the system are

- the production and sales records of the artisanal miners and the artisanal miners cooperatives,

- the purchase and sales records of the collectors and the buying houses.

In practice, however, these records are not well maintained by the miners and collectors and are not subject to careful and consistent monitoring and supervision. Consequently, although the Central African Republic has a well-designed system in theory, it is not effectively implemented in practice.

Procedures and Documentation. A pervasive problem is that the procedures for obtaining licenses are, reportedly, often long and cumbersome, and applications sometimes experience long processing delays. These factors can serve as a disincentive and barrier to those seeking the necessary authorizations to conduct business in a legal manner in the formal sector.

Artisanal Diamond Export Taxes

Diamond Tax and Fee Payments. There are three main sources of diamond taxes and fees—namely diamond export taxes, diamond buyers’ license fees, and artisanal miners’ registration fees. Total taxes and fees have declined from 5,961 million CFAF in 2000 to 3,295 million CFAF in 2009 as shown in table 3.1. The decline in tax payments is largely the result of the decline in diamond export values (previously shown in table 2.5).

Table 3.1 Diamond Taxes and Fees 2000–09 (million CFAF)

Year	Diamond export taxes	Diamond buyers’ fees	Miners’ registration fees	Total
2000	5,274	476	210	5,961
2001	4,982	409	210	5,601
2002	4,546	399	210	5,155
2003	3,400	331	105	3,836
2004	3,332	296	105	3,733
2005	3,910	352	210	4,472
2006	3,920	302	210	4,432
2007	3,571	318	210	4,099
2008	2,664	422	355	3,440
2009	2,797	281	217	3,295

Source: BECDOR, Ministry of Mines.

Tax Regime. The Central African Republic’s government has set up an artisanal diamond export tax regime in which most of the primary taxes (but not the smaller franchise taxes) are collected at the buying house level. The tax regime for diamond exports is made up of six tax components payable by the exporters immediately after valuation of the diamond packages presented for export. The aggregate of these taxes comes to 12 percent of the value of the diamonds to be exported (table 3.2). As an incentive to support their creation and operation, artisanal miners cooperatives are provided with an exemption of the 3 percent special tax on diamonds. This incentive may be a factor in the much higher proportion of large versus small stones in cooperatives’ diamond export packages.

Table 3.2 Central African Republic Diamond Tax Structure

Tax	Beneficiary	Rate (%)
Exit tax	General revenue	4.0
Mining industry promotion funds	Ministry of Mines	1.0
Tax for information technology and financial equipment	General revenue	0.5
Tax for KP Permanent Secretariat	Ministry of Mines	0.5
Special tax on diamonds	General revenue	3.0
Fixed minimum tax	General revenue	3.0
Total		12.0

Source: Boksenbojm 2010.

Comparison with Other Countries. Diamond export taxes are much higher in the Central African Republic than in nearby countries (table 3.3).

Table 3.3 Comparison of Country Tax Rates on Diamond Exports (%)

Central African Republic	Congo, Dem. Rep. of	Guinea	Liberia	Sierra Leone
12.0	4.5	3.0	3.0	3.3

Source: Boksenbojm 2010.

Export taxes are only part of a government's total tax take for diamonds. In the Democratic Republic of Congo, for example, miners are subject to other taxes, including

- 30 percent income tax on profits;
- 10–20 percent tax on dividends;
- customs duty of 2–5 percent of the cost, insurance, and freight value on imported equipment;
- 3–5 percent turnover tax on goods and services.

Not all of these taxes are paid by artisanal miners, however, so a sizable gap exists in the taxes assessed by the Central African Republic as compared to its neighbors—although likely not as large as table 3.3 indicates.

License and Registration Fees

Fees. The fees assessed by the Central African Republic for various diamond industry licenses are shown in table 3.4. While the fees for mine workers and artisanal miners are seemingly quite modest by international standards, they are very substantial relative to rural incomes in the Central African Republic and, in addition, must be paid up front. They are, thus, a disincentive to registration for those who may earn only \$1–2 per day or less. In particular, the artisanal mining fee represents a substantial up-front expense for artisanal miners, of whom over 80 percent do not to pay the registration fee and operate illegally instead.

Table 3.4 Diamond Industry License and Registration Fees in the Central African Republic

Licensee/registrant	Fee	
	CFAF	\$
Mine worker/laborer	2,000	4
Artisanal miner	48,850	100
Cooperative	60,000	120
Collector	1,500,000	3,000
Buying house—main license	22,000,000	45,000
Buying house—regional buying center	3,500,000	7,200

Source: Ministry of Mines.

Other Countries. License fees for buying houses are higher in the Central African Republic than in neighboring countries (table 3.5).

Table 3.5 Cross-Country Comparison of Buying House Diamond Export License Fees (\$)

Central African Republic		Congo, Dem. Rep. of	Guinea	Liberia	Sierra Leone
Main office	Regional buying center				
45,000	7,200	25,000	25,000	20,000	35,000

Source: Boksenbojm 2010.

Other Fees and Charges

Cooperatives. In addition to their business taxes and fees, cooperatives must pay a membership fee and contribute CFAF 30,000 (about \$60) each year to UNCMCA.

Buying Houses. In addition to the taxes and fees noted above, the diamond buying houses in the Central African Republic must

- deposit a guarantee of CFAF 50 million (about \$103,000), from which the state will, on an annual basis, deduct CFAF 5 million (about \$10,300) until funds are depleted;
- construct new buildings with a value of CFAF 350 million (about \$720,000) over a three-year period which must be handed over to the state or local communities.

When taken together, the average annualized total for all these various fees and charges plus the buying house license and registration fees is about CFAF 166.2 million (about \$342,600) (table 3.6).

Table 3.6 Total Buying House Diamond Export License and Registration Fees in the Central African Republic

Item	Total cost (CFAF)/years	Annual cost (CFAF)	Number	Annual total (CFAF)
Guarantee	50 million/5 years	10 million	1	10 million
Real estate	350 million/3 years	116.7 million	1	116.7 million
Headquarters	Annual fee	22 million	1	22 million
Regional buying centers	Annual fee	3.5 million	5	17.5 million
Annual total (CFAF)				166.2 million

Source: Ministry of Mines, presented in Boksenbojm 2010.

Finally, each buying house must also perform the following:

- Build, within a period of five years, a headquarters office in Bangui with a monetary value of CFAF 150 million (about \$310,000).
- Acquire, for every buyer in its subsidiary offices, a personal residence and movement permit, which enables the holder to reside and move freely in mining areas; the permit is issued by the Ministry of Mines for CFAF 300,000 (about \$620) per person per year.

4 Government Oversight and Regulatory Institutions

Ministry of Mines and Mining Brigades

Ministry of Mines. The Ministry of Mines administers and regulates the mining sector in the Central African Republic and, as part of its overall responsibilities and authority, is in charge of regulating and overseeing the production and marketing of diamonds throughout the country. The General Mining Directorate reports to the minister and his office. Four directorates in turn report to the General Mining Directorate:

- The **Programming, Study, and Research Directorate**, which includes the Mining Cadastre and Mining Technical Service; the Laboratory and Assaying Service; and the Documentation, Drawing, and Mapping Service
- The **Marketing, Industry, and Mining Registry Directorate**, which includes the Industrial Techniques Service, the Marketing and Mining Record Service (which keeps an inventory of producers and traders involved in the mining industry and their production figures), and BECDOR
- The **Mining Production Support Directorate**, which includes the Environmental Protection Service; the Monitoring, Control, and Evaluation of Investment Service; and the Technical and Material Support and Dispersion Service
- The **Regional Mining Directorate**, comprised of four regional offices—Bouar in the northwest, Berberati in the southwest, Bria in the northeast, and Bangassou in the southeast

Mining Brigades. In addition to the four regional offices noted above, the Ministry of Mines is assisted by 13 mining brigades, which are responsible for combating fraud in the precious stones industry. Among their other duties, they are responsible for verifying the diamond purchase receipts and affixing their stamp on them, which is required for diamonds to be transferred from the various mining localities into Bangui. The mining brigades have been widely criticized by sector operators for being ineffective, unprofessional, and corrupt. The 2009 regulations provided for the mining brigades to be restructured into a Special Diamond Anti-Fraud Unit (Unité Spéciale Anti-Fraude, USAF) which has been established with an initial staff of about 30 staff which is undertaking pilot work in one of the mine sites.

BECDOR

Created in 1993, BECDOR is under the direct supervision of the Marketing, Industry, and Mining Registry Directorate of the Ministry of Mines. Based in Bangui, BECDOR is the preeminent state institution for the diamond industry. BECDOR has the authority and responsibility to oversee the industry's proper functioning and to oversee the industry operators on behalf of the ministry. BECDOR works to ensure that miners, collectors, and buying houses are well informed regarding relevant laws and procedures. The agency is headed by a director, assisted by six expert evaluators.

Valuation and Tax Assessment. BECDOR oversees and regulates the internal diamond market, and evaluates and approves packages of diamonds for export by the buying houses and cooperatives. It enforces all relevant regulations, including checking all collector and buying house diamond purchasing contracts and verifying transaction-related authorizations. The expertise of BECDOR evaluators is crucial in determining the taxes payable to the state. During the export diamond evaluation process, BECDOR experts also assess and collect the taxes payable to the state before the diamonds are exported in accordance with existing regulations. The evaluators receive, in addition to their salaries as government workers, an allowance of up to 0.0016 percent of the administrative list price of exports.

The procedures for diamond exports are as follows:

- Forty-eight hours before export, BECDOR receives purchasing documentation for the packages to be exported from buying house representatives. A meeting is set up for valuation and verification.
- The buying house representative arrives at the stipulated time with the diamonds in plastic bags, packaged by size and level of purity, color, and shape. The packages are weighed by the BECDOR evaluators in the presence of officials from the mining brigade, customs, and KP Permanent Secretariat.
- After the inspection and, if necessary, repackaging of the stones, the BECDOR experts confirm the packages and calculate the taxable value by applying the BECDOR administrative price to each.
- Taxes payable to the state are calculated based on the total value of all the diamonds to be exported. A portion of this amount is paid to the Ministry of Mines and the rest to customs.
- Back in their office, the BECDOR evaluators seal each export in an unbreakable container, which is then given to the exporter for safekeeping until departure.
- The unbreakable containers holding the export diamonds are transported to the airport by a BECDOR representative accompanied by mining brigade officials.

Administrative Diamond Prices. As previously noted, taxes are assessed by BECDOR in accordance with an administrative price list, which can quickly become outdated if not adjusted frequently—to the detriment of producers when world market prices are falling, and to the detriment of the government when prices are rising.

Data. BECDOR's in-house information technology specialist enters, processes, and stores relevant statistical data. BECDOR has an impressive stock of statistical data on diamond and gold production and trade, dating to the early days of artisanal mining in the country. These data are a valuable tool for BECDOR in understanding and analyzing the strengths and weaknesses of the system in place.

KP Permanent Secretariat

The Kimberley Process Permanent Secretariat in the Central African Republic is headed by a permanent secretary assisted by a deputy, an accountant, an administrative assistant, a driver, and a courier. The secretariat's mission is to verify the origin of the diamonds exported, issue KP certificates, and manage all export and import statistics on rough diamonds from the Central African Republic. The permanent secretary or his deputy regularly attends KP monitoring missions in other participating countries and actively participates in each year's KP plenary.

Statistics. The permanent secretary is in constant contact with the KP focal points of other participating countries to provide them with national production and export statistics. In turn, he receives from the KP Statistics Center the list of dispatches from the Central African Republic and their arrival in the other participating countries so any registry discrepancies can be investigated and corrected.

Investigation. In case of any irregularity, the permanent secretary conducts an investigation to identify the source of the problem.

- A representative from the KP Permanent Secretariat witnesses all diamond export procedures at BECDOR and cross-checks the documents on each of the export packages, after which the secretariat issues an original KP certificate to the exporter.
- The buyer in the recipient country checks the documents and the contents of the package and sends confirmation of delivery to the secretariat.

KP Monitoring System

Overall Achievement. The KP Certification Scheme enables close monitoring of international trade in rough diamonds, which globally is currently estimated at about \$40 billion and 475 million ct. Largely due to the KP, trade in illicit diamonds (mostly from conflict zones) has been reduced from an estimated 15 percent of total trade in 2000 to about 1 percent today.

KP in the Central African Republic. The Central African Republic is considered by the international diamond industry to be one of the countries that has been most effective in implementing the KP Certification Scheme. The Central African Republic has implemented the scheme since 2003, and its government agencies work closely with the KP in this regard. The country's certification plan and system of data maintenance/storage on diamond exports which was instituted by BECDOR and the KP Permanent Secretariat in Bangui is considered by the KP to work well.

System Shortcomings. There are several significant weaknesses in KP Certification Scheme implementation in the Central African Republic.

- Due to a lack of monitoring staff, production books are left with artisanal miners and rarely collected by the government. This deprives the Ministry of Mines of accurate, factual production figures and hinders reconciliation of data from mining books with the purchasing records of licensed diamond buyers.
- The production books provided by the Permanent Secretariat to the miners have detachable pages. Records can thus be easily changed and product sold to unlicensed buyers removed from the register. Oversight of these documents would be better entrusted to the regional mining offices.
- A KP mission conducted in April 2008 called attention to problems related to the forwarding and processing of data linked to the internal control chain (such as the calculation of production, data audit, and so on).
- The functioning of the certification system is put at great risk by illegal diamond trading along porous borders with other countries, as well as by instability along the borders due to conflicts in the region.

Analysis of KP Data and Variances

Trends in Reported Production and Prices. Data produced by the KP Statistics Center shows that reported production peaked at 419,528 ct in 2006 and has since declined to 377,208 ct in 2008; diamond prices as measured by BECDOR based on its administrative list prices for exports have declined from \$150 per ct in 2005 to \$127 per ct in 2008 (table 4.1). There were some noticeable differences in prices between the first and second halves of the year from 2005 to 2007, and production declined sharply in the second half of 2008.

Reconciliation of Export/Import Data. The reconciliation of diamond export/import monitoring data as maintained by, respectively, the Central African Republic and the recipient countries has improved slightly in recent years (table 4.2). This improvement may be the result of switching to an electronic database and the KP Permanent Secretariat's practice of sending advance notification to the KP in Antwerp of all Central African Republic diamond exports.

Prices. The prices declared during exportation by the Central African exporters and BECDOR are nearly in harmony with the prices declared by the importers in the recipient countries (table 4.3). This fact is noteworthy but perhaps not surprising, since in the Central African Republic, it is mostly the parent companies or financiers of the buying houses that import the diamonds in the recipient countries. Table 4.3 shows the variations in exports/imports recorded by, respectively, the Central African Republic and the recipient countries in terms of average price per ct for all classifications of rough diamonds.

Variances. Some reporting variances persist between the Central African Republic and its partners, notably with regard to the number of certificates and the values and volumes of exports and imports, but they are generally modest. In 2008, discrepancies of about \$3 million were reported, with the widest disparities noted for transactions with Switzerland (a discrepancy of 8,553 ct valued at \$1,130,336), Israel (a discrepancy of 4,900 ct valued at \$650,000), and the European Union

Table 4.1 Changes in Reported Production and Average Diamond Prices in the Central African Republic, 2003–08

Year/division	Volume (ct)	Value (\$)	Average price (\$/ct)
2003	1st half	163,174	—
	2nd half	166,469	—
	Annual	330,527	48,186,399
2004	1st half	184,646	27,313,390
	2nd half	163,558	24,396,014
	Annual	348,204	51,709,404
2005	1st half	189,251	25,604,356
	2nd half	186,334	30,643,164
	Annual	375,585	56,247,520
2006	1st half	220,028	30,225,967
	2nd half	199,500	28,840,899
	Annual	419,528	59,066,866
2007	1st half	286,503	31,972,840
	2nd half	181,207	27,885,029
	Annual	467,710	59,857,870
2008	1st half	231,274	28,914,503
	2nd half	145,934	18,837,779
	Annual	377,208	47,752,282

Source: KP Statistics Center.

Note: — = not available.

Table 4.2 Reconciliation of Central African Republic Diamond Export/Import Data

Year	Exports (Central African Republic)		Imports (recipient countries)		Net variation	
	Volume (ct)	Value (\$)	Volume (ct)	Value (\$)	Volume (ct)	Value (\$)
2003	330,527	48,186,399	302,387	44,319,017	28,139	3,867,361
2004	349,450	51,592,358	345,447	50,749,203	4,003	843,155
2005	382,756	60,572,403	392,465	61,757,932	–9,709	–1,185,529
2006	415,526	59,066,866	420,677	58,482,391	–6,155	584,475
2007	417,710	59,857,870	399,643	59,759,555	18,067	98,315
2008	377,210	47,749,283	383,538	48,607,448	–6,328	–858,165

Source: Based on consultant estimates.

Table 4.3 Comparison of Average Price of Diamond Exports from the Central African Republic with Average Price of Imports in the Recipient Countries, by Rough Diamond Code (\$/ct)

Year	Average price recorded by the Central African Republic				Average price recorded by the recipient countries			
	HS Code 7102.10	HS Code 7102.21	HS Code 7103.21	Total	HS Code 7102.10	HS Code 7102.21	HS Code 7103.21	Total
2003	165	34	169	146	163	53	160	147
2004	143	41	230	148	145	17	188	147
2005	157	—	696	158	157	—	189	157
2006	142	—	914	142	139	467	114	138
2007	143	—	—	143	149	—	254	149
2008	127	—	—	127	127	—	88	127

Source: Boksenbojm 2010.

Note: HS = Harmonized System; — = not available. 7102.10 = unsorted; 7102.21 = industrial; 7103.21 = jewelry quality.

(a discrepancy of 4,183 ct valued at \$398,700). Also, a consignment to South Africa of 2,800 ct valued at \$447,000 does not appear on the official import register of that country.

Data Reconciliation. For 2009, reconciliation of data reported by the Central African Republic and some of its partner countries is incomplete. Differences of 6,328 ct and \$858,165 have been identified between the export records and recipient countries' import records. There have been reports of diamonds being exported to the Central African Republic from a KP participant country (in its yearly report, Israel reported exporting 271 ct of diamonds to the Central African Republic), yet no trace of import was found in the Central African Republic. The KP's international governing bodies and the Permanent Secretariat have begun to probe into this matter to elucidate it. In June 2009, the KP working group responsible for updating statistical data had not yet received all the data for 2008 on the number of certificates exchanged among the participants. The reconciliation of some certificates issued by authorities in the Central African Republic and those received by the recipient countries in recent years show some discrepancies that should be revisited.

Other New State Institutions

Two new organizations were formed as part of the 2009 reforms. The **National Geological and Mineral Research Office** is a new organization created to undertake geological research; its creation has been well received by industry experts and people living in diamond mining areas as having the potential to help identify promising sites. The **Minerals and Gemstones Counter** is a government office that will purchase diamonds in the marketplace. The value of a government office competing with the private sector has yet to be demonstrated.

5 Diamond Fraud in the Central African Republic

Informal Channels for the Sale of Central African Republic Diamonds

Diamond fraud refers to the unrecorded production of diamonds and to the sale of diamonds to unlicensed buyers who then smuggle them out of the country illegally and avoid paying the taxes due to the government. It involves a violation of the mining code and its regulations and of the customs and the tax codes. With Central African Republic diamonds, mining fraud is due to many factors, takes many forms, and occurs at a variety of social levels. It currently occurs quite openly at production sites, but the local population remains largely indifferent, given that it neither gains nor loses anything for denouncing the practice. It is performed by many informal operators but is often aided by the complicity of government officials. Fraud in the diamond industry has existed in the Central African Republic for many decades—as is true for the majority of the alluvial diamond-producing countries in Africa. The easily lootable nature of the mineral, the nature of the borders, the socioeconomic context, the many conflicts that have periodically led to insecurity in Africa, the financial precariousness of low-paid government workers, the low incomes of the artisanal miners and mine workers, and the operating mode of the industry are all factors that make diamonds in this region vulnerable to fraud. Above all, the physical nature of a diamond—its ability to command a high value while being small and easy to conceal and transport—has promoted its use in many illicit and fraudulent transactions, including money laundering, the hiding and exporting of capital profits as hard currency, or as an alternative means of financing imports in weak economies.

Artisanal Miners and Workers

Most of the artisanal miners operating in the Central African Republic are not legally registered, and even though they work very hard, this does not always allow them to satisfy their basic needs. In these very difficult conditions, they are constantly tempted to accept offers to purchase diamonds “off book”—that is, without the diamonds being recorded in their production book—to earn some financial gain to satisfy their most pressing needs. Even those who are licensed frequently keep large stones, when found, off book. There are several additional reasons why miners, including those who have obtained their licenses, do not always register their findings in their production books:

- Some may conceal a portion of their production from their financial backers so as to be able to sell the diamonds at a better price elsewhere.
- Some may keep the most valuable stones off book in order to avoid taxes.
- Some may conceal part of their production, especially their sizable finds, to avoid the pressure of paying bribes to the mining brigade.
- Some may not want to disclose the extent of their findings so as to avoid requests for help from their immediate and extended family members.

Governmental controls at the local level are very limited because of the weakness of the institutional framework and the lack of human resources and established logistics in the production areas. As a result, a large part of the Central African Republic diamond production passes through informal channels and escapes government detection.

Collectors

The collectors have become a major power in the Central African Republic's diamond sector. Their socioeconomic influence in rural areas is very pronounced, because of the large amount of funds they channel into diamond communities both to prefinance exploration and mining and to purchase stones. The conditions under which the collectors work enable them to amass a large profit margin. Effective control of their transactions is difficult because of their itinerant nature. Furthermore, some collectors are foreigners who have families or commercial links in countries bordering the Central African Republic. Diamonds can thus be diverted to nearby countries from which they are also exported illegally or to legal channels in other countries with lower tax rates in the absence of close supervision, collectors with links to adjoining diamond-producing countries have an especially broad scope to act as they please. Their financial wherewithal enables them to travel abroad easily to sell their diamonds thus, avoiding taxes in the Central African Republic and possibly in the other country as well.

Buying Houses

The buying houses that carry out the diamond trade in the Central African Republic face a higher export tax regime and closer inspection of diamonds than do their counterparts in some of the neighboring countries. However, there are a variety of ways that these taxes can be reduced or completely avoided. For example, taxes can be avoided by concealing part of their purchases and diverting diamonds—especially large stones—to the informal market and exporting them illegally. In recent years a lack of large stones in diamond export packages indicates that such illegal practices are not infrequent, with the likely complicity of certain government workers. Even for diamonds that are exported legally, taxes can be reduced by undervaluing diamond packages—again with the complicity of officials.

Former Buying Houses. At least two of the buying houses that were closed by the government in 2008 continued to maintain a presence in Bangui and the Central African Republic mining areas. While they are officially closed and their personnel laid off, their supply channels continue to exist, which creates the opportunity for good quality diamonds to be evaluated, sold, and exported

illegally, all the while avoiding any taxes—to the benefit of the seller and buyer but to the detriment of the government.

Unlicensed Buyers. There are many unlicensed purchasers and unlicensed transactions in the Central African Republic. In the country’s interior, in many villages surrounding the mining sites, many of the store owners and various merchants devote themselves to the purchasing of diamonds (without any official authorization), sometimes even within sight of the mining brigade. Foreigners (professionals, but also people not at all related to the sector) set up shop in hotels and buy diamonds directly or through intermediary local business partners. Buyers representing buying houses with purchasing offices near the border in neighboring countries buy in the targeted mining zones through their financiers and regularly make round trips across the border to deliver their purchases and to refinance.

A Context for Fraud

There are many areas in the interior of the country where law and order are difficult to maintain, such as N’Dele in the north and Samondja in the midwest; this circumstance tends to reduce the barriers to smuggling diamonds to neighboring countries. Political difficulties and internal strife in any neighboring country can also have a decisive influence on the extent of diamond smuggling, and such countries can become a favored destination by traffickers looking to sell their diamonds.

Other factors creating a context for fraud are related to weakness of government supervision and control over the diamond industry; these are delineated below.

Geographical Dispersion. Diamond mining is carried out over vast and remote areas, distant from one another, in different areas of the country. Since the number of artisans and mine workers is not really known, it is difficult to devise any control strategy or put in place development programs that might help reduce smuggling.

Lack of Government Presence and Competence. The human and other resources of the 4 Ministry of Mines regional directorates and the 13 mining brigades are presently simply inadequate for overseeing the diamond industry. For example, only one brigade, in Carnot, has a service vehicle. Many mining sites carry out their normal activities without ever being visited by the local brigade. Among those that are visited, inspections are carried out only occasionally, usually when there is a conflict. Many miners criticize the brigades for their lack of professionalism, general inefficiency, abuse of power, and corruption, among other disreputable qualities and activities. As in many developing countries, the salaries paid Central African Republic government workers in this sector are barely sufficient to cover family needs, making participation in fraudulent activities understandable, particularly given the ease with which these can be covered up and the size of the amounts involved. In the interior of the country, “friendship” between agents and miners is commonplace and can be used to provide a cover for improper relationships. Some officials are reported to go even further by financing explorations of gold and diamonds.

Diamond Export Pricing and Taxes. A fundamental incentive for keeping diamonds—especially the largest and most valuable ones—out of formal channels is the relatively high export taxes and other financial obligations levied on buying houses as compared to those in neighboring countries.

And, as noted elsewhere, BECDOR evaluators calculate diamond tax assessments using a generally outdated administrative price list rather than actual world market prices. In early 2009, this meant that BECDOR prices did not reflect a drop of more than 50 percent for some diamond grades on the world market. This lack of realism creates further incentive to sell and export diamonds illegally.

Financing the Sector. The informal prefinancing of production by purchasers lacks written documentation. Although this has been the case for generations in the Central African Republic, it opens the sector to the involvement of financiers who may encourage buyers to keep sales off the books. The recent financial crisis has exacerbated the situation, as miners with cash flow shortages turn increasingly to merchants from other sectors, businesspeople, citizens and foreigners alike, as well as financiers working anonymously. The system is facilitated by a lack of checks at the mining sites. A very significant effect is that large diamonds (those more than 5 ct) are very rarely found in the official market and exports. Thus, the non-involvement of commercial banks in financing the sector is a distinct barrier to formalizing its activities.

Quantitative Analysis of Fraud in the Central African Republic

Higher Value Diamonds. The data for diamond exports by miners cooperatives in 2006 provide some important insights about the production of higher quality diamonds. In that year, the national average export price per ct of diamond was about \$141, while the average price per ct of diamond exported by the cooperatives was \$532—about 3.75 times the average national price. It is highly unlikely that differences in geology could explain this very large differential. The more likely explanation is that many of the larger stones produced by individual artisanal miners were placed in the packages of stones being exported by cooperatives. This might have been done to enable the cooperatives to put together the minimum size package needed for export; it may also have been done to take advantage of a lower export tax rate of 9 percent for cooperatives compared with 12 percent for the buying houses.

Varying Rates. Information from a wide variety of stakeholders—including those within the government as well as from the private sector, members of civil society, academics, and foreign diamond merchants with recent or current business contacts with the Central African Republic diamond industry—indicates that there is a considerable level of fraud in the country's diamond sector. Illegal sales are made by miners at the mining site, by the buying houses' subsidiary regional buying offices in the mining towns and by the collectors. In addition, the buying houses in Bangui may understate the value of some export packages or may separate out the higher value stones and export them outside of formal channels. Little is known for certain, however, about the relative values and volumes. Furthermore, the rate of fraud in the Central African Republic diamond sector appears to vary by time of year and the level of diamond sales, with the proportion of illegal sales and smuggling highest in the months with the largest production.

Methods of Estimation. In theory, it should be possible to estimate the total quantity and value of Central African Republic diamonds that are imported by the international centers and to compare it with the legally reported export quantities and values by BECDOR and thereby estimate the amount of smuggling and fraud. In practice, however, international buyers do not attempt to provide estimates of stones that are imported from one county and mined in another country. It might

be possible for an independent international expert to make such estimates for raw stones, but one of the problem is that stones are generally cut very quickly after receipt and once cut it is very difficult to determine the country where the diamonds were mined. It is hoped that scientific research will soon disseminate tools worldwide to improve traceability of such diamonds on a broader scale. This would facilitate data collection from the international cutting and polishing centers on the quantity of smuggled diamonds that were mined in the Central African Republic. For now, experts must turn to a variety of other analytical methods to estimate the extent of fraud in the Central African Republic diamond industry as follows:

- After their visit to the Central African Republic in 2008, the report made by KP experts estimated fraud to be 30 percent of total diamond production.
- Some analysts have used a simple multiplication, taking the number of artisanal diamond miners with a minimal remuneration of CFAF 2,500 (about \$5) per day for a work year of 200 days, yielding an annual figure of \$80 million (80,000 workers × \$5 × 200 days) as the production cost of Central African diamonds. Using the price differentials between the mine site sales and export sales as shown in table 2.4, this would indicate an annual export value of about \$110 million. With average annual legal exports of \$56 million per year for the past five years, this would indicate the value of illegal sales to be about the same as the legally reported diamond exports.
- One estimate prepared in 2009 is that up to 50 percent of the diamonds produced exit the country illegally.¹
- Some consider the figure of 635,935 ct reached in 1968 as the total potentially attainable production every year. Thus, with an annual average production of 370,000 ct for the past four years, the fraud rate could be in the range of 270,000 ct—that is, as high as 75 percent of the total production of diamonds by ct weight in the Central African Republic and it is to be expected that on average higher quality stones will be diverted into illegal channels.

Quantifying Fraud along the Value Chain. An attempt has been made here to illustrate what the amounts of fraud would be at each point in the Central African Republic value chain based on a set of estimates about the sales by each component of the chain. These estimates are presented in tables 5.1 and 5.2. For the purpose of this report, a legal production of 360,000 ct is used. Then two scenarios have been prepared. Both scenarios are prepared on the basis that there will be a tendency for better diamonds to be smuggled than those in legal channels. The first scenario (Scenario A) is based on 120,000 ct of illegal diamond sales—one-quarter of total production of 480,000 ct which is broadly in line with the KP estimate of illegal sales. In this scenario, where illegal sales are much lower than legal sales, it is to be expected that the illegal diamonds will be very much higher quality stones than those recorded in the official production. Based on the relationship between sales by cooperatives and average official sales in 2006, a price of 3.75 times the official per ct price is used. The second scenario (Scenario B) is a scenario where the quantity of stones sold illegally is equal to that of legal sales, resulting in total diamond production and sales of 720,000 ct. This scenario

¹ Estimate by Tieghong Chupezi and others study of the impacts of artisanal gold and diamond mining on livelihoods and the environment in the Sanga Tri-National Park, referenced in Hinton and Levin (2010), p. 8.

is based on the third and fourth bullets above. It is expected that the illegal diamonds will be still be higher quality stones than those recorded in the official production, but the price differential is much smaller—an estimate of 1.5 times higher than for legal sales is used.

Table 5.1 Average Diamond Purchase Prices for Legal and Illegal Transactions across the Central African Republic Value Chain for Scenario A and Scenario B (\$ per ct)

Value chain component	Scenario A		Scenario B	
	Legal sales	Illegal sales	Legal sales	Illegal sales
Mining site	94.4	354	94.4	141
Towns close to mining site	122.7	460	122.7	184
Bangui buying house	140.0	525	140.0	210

Source: Consultant estimates.

Table 5.2 Illegal Sales at Different Points in the Central African Republic Value Chain

Value chain component	Illegal production		Disposition
	Volume (ct)	% of total	
Miners	72	216	Sold to collectors
	6	18	Sold to regional buying centers
	6	18	Sold to buying houses
	36	108	Sold illegally (fraud)
	120	360	
Collectors	72	216	Sold illegally (fraud)
Regional buying centers	6	18	Passed on to buying houses
Buying houses	12	36	Sold illegally/undervalued (fraud)

Source: Consultant estimates.

In the first scenario, the estimated total sales value of illegal diamonds is \$53.1 million, compared with formal sales of \$56.6 million. Based on the sales distribution in tables 5.1 and 5.2, it is estimated that illegal sales by miners are about \$15 million (table 5.3), illegal sales by collectors are \$27 million, and illegal sales by the buying houses are \$11 million (this latter figure includes possible fraud in terms of export packages being undervalued by the buying houses). In the second scenario, the estimated total sales value of illegal diamonds is \$ million, compared with formal sales of \$43 million. Based on the sales distribution in tables 5.1 and 5.2, it is estimated that illegal sales by miners are about \$12 million (table 5.4), illegal sales by collectors are \$22 million, and illegal sales by the buying houses are \$9 million (this latter figure includes possible fraud in terms of export

Table 5.3 Legal and Illegal Diamond Sales in the Central African Republic: Scenario A

Value chain component		Volume (ct)			Value (million \$)		
		Legal	Illegal	Total	Legal	Illegal	Total
Miners	Production	360	120	480			
	Sales	360	120	480	37.7	44.1	81.8
	To collectors	252	72	324	23.8	25.5	49.3
	To regional buying centers	72	6	78	8.8	2.8	11.6
	To buying houses	36	6	42	5.0	3.2	8.2
	Illegal sales	0	36	36	0.0	12.7	12.7
Collectors	Purchases	252	72	324	23.8	25.5	49.3
	Sales	252	72	324	33.1	33.1	66.2
	To regional buying centers	126	0	126	15.5	0.0	15.5
	To buying houses	126	0	126	17.6	0.0	17.6
	Illegal sales	0	72	72	0	33.1	33.1
Regional buying centers	Purchases	198	0	204	24.3	2.8	27.1
	From miners	72	6	78	8.8	2.8	11.6
	From collectors	126	0	126	15.5	0.0	15.5
	Sales	198	6	204	24.3	0.0	24.3
Buying houses	Purchases	360	12	372	47.0	5.9	52.9
	From miners	36	6	42	5.0	3.2	8.2
	From collectors	126	0	126	17.6	0.0	17.6
	Through regional buying centers	198	6	204	24.3	2.8	27.1
	Sales	360	12	372			
	Exports before tax	360	0	360	56.6	0.0	56.6
	Exports including taxes	360	0	360	63.4	0.0	63.4
	Sold illegally/undervalued	0	12	12	0	7.1	7.1
Industry-wide illegal sales			120	120		53.0	53.0
By miners			36	36		12.7	12.7
By collectors			72	72		33.1	33.1
Sold illegally/undervalued		0	12	12	0	7.1	7.1

Source: Consultant estimates.

Table 5.4 Legal and Illegal Diamond Sales in the Central African Republic: Scenario B

Value chain component		Volume (ct)			Value (million \$)		
		Legal	Illegal	Total	Legal	Illegal	Total
Miners	Production	360	360	720			
	Sales	360	360	720	37.7	53.0	90.6
	To collectors	252	216	468	23.8	30.6	54.4
	To regional buying centers	72	18	90	8.8	3.3	12.1
	To buying houses	36	18	54	5.0	3.8	8.8
	Illegal sales	0	108	108	0.0	15.3	15.3
Collectors	Purchases	252	216	468	23.8	30.6	54.4
	Sales	252	216	468	33.1	39.8	72.9
	To regional buying centers	126	0	126	15.5	0.0	15.5
	To buying houses	126	0	126	17.6	0.0	17.6
	Illegal sales	0	216	216	0	39.8	39.8
Regional buying centers	Purchases	198	0	216	24.3	3.3	27.6
	From miners	72	18	90	8.8	3.3	12.1
	From collectors	126	0	126	15.5	0.0	15.5
	Sales	198	18	216	24.3	0.0	24.3
Buying houses	Purchases	360	36	396	47.0	7.1	54.1
	From miners	36	18	54	5.0	3.8	8.8
	From collectors	126	0	126	17.6	0.0	17.6
	Through regional buying centers	198	18	216	24.3	3.3	27.6
	Sales	360	36	396			
	Exports before tax	360	0	360	56.6	0.0	56.6
	Exports including taxes	360	0	360	63.4	0.0	63.4
	Sold illegally/undervalued	0	36	36	0	8.5	8.5
Industry-wide illegal sales			360	360		63.5	63.5
By miners			108	108		15.3	15.3
By collectors			216	216		39.8	39.8
Sold illegally/undervalued			36	36		8.5	8.5

Source: Consultant estimates.

packages being undervalued by the buying houses). As noted previously, reliable estimates of fraud are not available and these should be considered an indicative range. The data can and should be revised as and when better estimates are available regarding total production.

Estimate of Tax Losses due to Fraud in 2008

The 12 percent taxes on the \$56.6 million of legal exports are \$6.8 million. If the 120,000 ct of very high quality stones in Scenario A and the 360,000 ct of higher quality stones in Scenario B were exported legally at their full prices of \$525 per ct and \$210 per ct respectively then the annual taxes on the illegal production in the two scenarios would be \$8.5 million in Scenario A and \$7.1 million in Scenario B respectively if they could be collected at the aggregate 12 percent tax rate. If only 75 percent of the illegal trade were legalized or if the sales tax were reduced to, say, 9 percent and all of the illegal trade were legalized, the export taxes would be \$6.4 million and \$5.3 million for the two scenarios respectively.

It must be emphasized again that these estimates should be improved and refined when better data and information become available. Better estimates will enable better monitoring of reporting by miners, collectors, and the buying houses and their regional buying offices, and could guide the government regarding priority interventions to reduce fraud and increase tax collections.

6 Improving the Diamond Industry's Community

Challenges. With an estimated 400,000 workers, diamond mining touches the lives of as many as 2–3 million people in the Central African Republic. Along with reducing fraud and increasing government taxes, diamond industry reform can also contribute to reducing poverty through higher diamond-related wages, more indirect and spin-off employment, and better environmental performance. In this way, the lives of the mine workers and their families—and of the general population in mining areas and other nearby rural areas—could be improved. An analysis of the industry's socioeconomic impact on indigenous communities in mining areas since 1961 showed that only a few individuals have benefited at the expense of the general population, most of who live in worsening conditions.

Community Impacts. With regard to the private sector, there is a lack of commitment or corporate responsibility toward mining communities on the part of diamond buyers; this, combined with a lack of engagement by the government, results in the potential for other mining and agricultural development projects/programs in the diamond mining areas not being realized. Lacking are initiatives to improve the potential benefits of artisanal mining (which are primarily direct and indirect employment and income) and to reduce the potential harm and risks caused by artisanal mining (which include not only the health and safety risks directly associated with mining, but also health and safety risks in the community associated with poor water quality, unsanitary living conditions, and lack of law and order).

Poverty Alleviation Potential. Artisanal mining areas have an advantage over many other rural areas in terms of a cash economy associated with mining, the development of townships in well-established artisanal mining areas, and (sometimes) better transportation links to population centers. Given these conditions, capital could be mobilized to support other employment opportunities in these areas, such as agriculture or cottage industries. These opportunities can be increased through local planning efforts, especially those that could attract possible sources of capital such as banks or microfinance schemes.

Improving Impacts for Women and Other Vulnerable Groups. There is also an important gender dimension to the potential for artisanal diamond mining to reduce poverty. Women make up half or more of mining community residents and can also be a significant part of the artisanal mining workforce—although the numbers in the Central African Republic are not known because the statistics for miners and mine workers are not disaggregated by gender. There are also no statistics about the number of children working at artisanal mine sites. The distribution of the benefits and risks from artisanal diamond mining within a remote mining community is generally highly skewed with the vast majority of the benefits (which are mostly employment and income) going to

men, and the risks (which include health, social, environmental, economic, and cultural risks) falling largely on women and the families they care for. Faced by low incomes and poverty, children can become part of the mining workforce to the detriment of their health, safety, education, and future prospects. Women are also the caregivers for men who are injured through artisanal mining, and they are also often subsistence farmers as well as mine workers depending on the season. There are also many girls and young women who migrate to mining areas in search of employment and find themselves resorting to prostitution to earn a living. Thus, recognizing the gender-related impacts and the impacts on vulnerable groups such as women, children, and youth is a crucial element of any artisanal mining poverty improvement strategy. By including women in community planning activities, community-related consultations and community decisions regarding how community support programs will be designed and community funds spent, the community will gain additional perspectives than if those activities are restricted to men.

Safety and Health. Over half the population of the Central African Republic is less than 20 years old, and there are many children working in artisanal mining. The safety and health risks are generally greatest for the most vulnerable, many of whom are women and children. Thus, improving the contribution of the diamond industry to health, safety, and environmental protection will entail the Ministry of Mines working with other ministries and agencies to develop initiatives to identify measures to reduce the social, safety, and health risks for women and children, including girls and young women who migrate to mining areas in search of employment. It will also entail the Ministry of Mines working with the Environmental Ministry and other agencies to develop initiatives to identify measures to reduce the environmental harm from artisanal mining, initiate rehabilitation of artisanal mining sites, and guide the design and implementation of training courses and technical assistance to meet the particular local needs.

Local Mining Area Committees. Establishing priorities and developing programs that meet the various needs of individual communities are contingent on first-hand local knowledge, involvement, and commitment. Local mining area committees should be established to design and implement local programs aimed at developing new employment and income-generating opportunities, attracting microcredit schemes, and improving adult literacy. These committees would also monitor socioeconomic development activities in mining areas and their surrounding communities, all with the aim of improving mining area living conditions with special concern for the needs of women and children. They should be made up of local representatives, including local government officials and representatives of civil society groups (such as women's and youth groups).

Monitoring and Improving Environmental Impacts. With the support of the Ministry of Mines through its regional mining offices, the local area committees could also consult on and monitor health, safety, and environmental conditions in the mining areas and provide their feedback to the Ministry of Mines on progress made in implementation of program components such as training and education efforts.

Other Country Examples. Hinton and Levin (2010) provide examples of initiatives by other countries to improve opportunities from and reduce risks of artisanal mining for local mining communities. Madagascar is an example of a country that has undertaken a successful communications campaign that emphasized the benefits of artisanal mining to the local community. Uganda has

undertaken successful community outreach and gender mainstreaming initiatives; Sierra Leone and Ghana are examples of countries that have revenue-sharing schemes that channel mining-related income back into local mining communities. Peru has engaged in a constructive multi-stakeholder engagement process, which included local groups. The Philippines has used decentralized governance of artisanal mining, coupled with extension services, to help artisanal miners to bring about improvements in occupational health, safety, and environmental performance at artisanal mine sites and in local communities.

7 Conclusions and Recommendations

The diamond industry in the Central African Republic has in place legal structures to facilitate accurate reporting of production, sales, and purchases; the issue is that the system is not well implemented and enforced. Several factors, outlined below, must be addressed if the behavior of miners, collectors, and buying houses is to change and fraud is to be reduced. Some of these relate to the structure of the industry, and others to the organization and capabilities of government. What is lacking above all else is trust and collaboration among the various stakeholders and a willingness and commitment for change to take place and fraud to be reduced. This chapter outlines a proposed multipronged approach for the government aimed at improving the structure and behavior of the industry, reducing fraud, and increasing tax receipts. It also seeks to reduce poverty in the Central African Republic by providing a higher standard of living for the artisanal miners and their workers and families in the country's mining communities. A key principle underlying the proposed strategy is that it should strike a balance between the interests of the state and those of industry. Hinton and Levin (2010) also provide examples of other countries that have successfully implemented some of the measures proposed below. Uganda and the Philippines are successful examples of countries that provide extensive training and outreach to artisanal miners. Ghana uses a simple licensing process that has been instrumental in increasing miner registration. In Guyana, a low export tax has been one of the factors in helping to keep down diamond smuggling. The Mano River countries are an example of harmonization of mining tax rates. In addition, South Africa is an example of a country that successfully uses weekly diamond buying markets.

Improving Miner Performance through Training and Improved Access to Capital

Challenges. There are presently no reliable estimates of the number of artisanal miners and mine workers, and the current registration system is not very effective because many miners and mine workers are unwilling or unable to register and/or pay the registration fees. There is a lack of solidarity between miners and buyers, and a lack of coordination within the two groups that prevents a common vision as to how to improve the industry's working environment. Indeed, there is a fundamental conflict of interest between the diamond buyers, who are seeking low prices and high earnings from financing the miners, and the miners, who are seeking higher prices and lower costs of prefinancing. Most of the miners who do the productive work and bear the safety and health risks associated with mining are only able to make a minimal living, whereas the collectors and buying houses are generally able to make a good profit. This reflects the dependency of the miners

on the buyers to prefinance their activities and the lack of transparency regarding costs and repayment. Also, because the mining industry in the Central African Republic consists of many tens of thousands of small, highly dispersed operators, there is currently no common forum, as in other countries dominated by a few large mining companies, for representatives of the miners and buyers to band together to address issues of common concern and engage with the government in a united fashion in order to represent the interests of miners with a view to improving economic and social relations between the state and the mining sector. To address all of these issues, the following actions are needed to implement an artisanal miner/mine worker census and registration; provide them with training and technical support; and improve financing for artisanal diamond mining operations.

Implementing Miner/Mine Worker Census and Registration

The issuance of no-fee registration cards would create a strong requirement for miners and mine workers to operate legally. By eliminating the current registration fees, the disincentive for miners and mine workers to register with the government is removed. Ghana is an example of a country where simplified licensing procedures have contributed to increased artisanal miner registration. Hinton and Levin (2010) estimate that if the *patente* were lowered to \$5 or less, then 65,000 miners could be registered. While the government may be reluctant to give up the income associated with registration fees, which was equivalent to about \$0.5 million or 6.6 percent of total diamond-related taxes in 2009 (as shown in table 3.1), the short-term decline in income should be more than compensated by long-term gains realized by reducing fraud and increasing export taxes. By improving the present registration scheme and making strong efforts to ensure that diamond mining production is conducted legally instead of illegally, the government will be better able to enforce and monitor the maintenance of accurate production and sales records by miners. The system will encourage artisanal miners to keep their production books accurately and to issue receipts to buying houses and collectors. This will only be possible, however, if miners are able to easily and conveniently register themselves and their activities. By combining registration with a census, miners would be able to register their activities with the government where they live and work, while at the same time government would gain accurate information on the number of artisanal miners and mine workers. The results of the pilot project being undertaken by the Property Rights and Artisanal Diamond Development program funded by the U.S. Agency for International Development will be an important input to designing improvements in the artisanal miners' registration process.

Providing Miner/Mine Worker Training and Support

Miners in the Central African Republic use very rudimentary methods for identifying areas to mine and in the actual mining; thus, the registration activities described above could very usefully be accompanied by a program of training and support aimed at improving miners' technical and commercial skills. This program would include adult literacy training so miners would be able to maintain their production and sales books and enter into written agreements with their financiers.

Benefits. The educational institutions of the Central African Republic have good capacity to provide technical training for miners, but these training activities need to be organized and funded and delivered in the mining localities. A well-designed and well-organized training program can

Implementing Miner/Mine Worker Census and Registration

The Ministry of Mines should, through its regional mining offices and in conjunction with local authorities, conduct a census to identify and register all artisanal miners and mine workers in the diamond sector, and the sites where they work, in order to provide baseline data and more reliable estimates of the number of miners and mine workers so as to obtain a better understanding of the actual situation in the industry.

Census workers should be authorized and given the necessary materials to register miners, mine workers, and the sites with no registration fees required, and with all those registering being given amnesty for past unregistered operations. As part of the registration procedure, a production and sales book should be issued to each miner for each site registered.

The Ministry of Mines should work with the artisanal miners and mining companies to establish a chamber of mines.

yield many benefits in terms of improving health and safety, improving the income of mining communities and the living conditions of mine workers and their families, and positioning miners to be better able to seek formal rather than informal financing of their operations.

Encouraging Cooperatives. The combined effect of registration and training could result in individual miners being more willing to form cooperatives and to move towards small-scale mining from artisanal mining. This outcome could be encouraged by revising downwards the minimum number of 10 artisanal miners required by legislation to establish a cooperative; this would also help lower the risk of conflicts of interest among members of a cooperative. These measures could thus lay the foundation for moving the mining sector from its current artisanal system to more of a

Providing Miner/Mine Worker Training and Support

The Ministry of Mines should organize an education and training program to be made available in the main the artisanal diamond mining areas. The program should provide miners and mine workers with training and support regarding

- geological information about their working areas and possibilities to reduce the risk that miners will work in areas with very little or no diamonds and assist them in finding deposits where their work will be better rewarded;
- better and more modern mining practices to both improve productivity and reduce health and safety risks;
- improved environmental practices to reduce pollution in local communities and increase reclamation and rehabilitation of mining sites where diamonds are being mined out;
- adult literacy and commercial training, so that miners are better equipped to keep their production and sales books and move away from informal prefinancing based on verbal agreements to written agreements that provide a clear basis for specifying cost and repayment arrangements.

small mine system, with miners able to use more mechanized mining methods. The establishment of small mines would further increase the technical capacity of the sector, formalize the system, enable miners to make more profit, and enable the government to better monitor production and reduce illegal sales. Such efforts might also contribute to the development of a small-scale gold mining industry. In the medium term, the government should establish schools and permanent training centers in mining areas to address various aspects of the mining industry.

Improving Financing for Artisanal Mining Operations

One of the key issues facing the sector, and in particular the miners, is access to financing. The prefinancing provided by buyers and traders lacks transparency and creates dependency and, without clearly stated terms and conditions, is highly advantageous to the lenders, who can deduct a large premium from the purchase price of diamonds to recoup the funding. The lack of affordable financing can encourage miners to turn to illegal buyers who are able to offer immediate cash for large diamonds; miners may be hesitant to pass such diamonds onto their normal financiers out of a concern that they will receive a very low price for them. Two measures are proposed to address these issues:

- To encourage commercial banks to prefinance diamond mining for at least some of the better established cooperatives and small mines
- To encourage private companies and entrepreneurs to purchase mechanized equipment which could then be leased to artisanal miners and cooperatives that are in a stable location and can demonstrate a track record of profitable production

If miners make a practice of keeping accurate production and sales records, these could be used as evidence of their track record in order to obtain prefinancing from more formal sources or be able to lease equipment.

Literacy and Commercial Training. The training for miners described above should include business training, so they have a better understanding of the cost of prefinancing and are able to prepare proposals to and sign written agreements with commercial banks or parties leasing equipment to prefinance their existing activities, improve their equipment, and increase their productivity and earnings.

Virtuous Circle. A “virtuous circle” can be set in motion, with miners improving their access to more affordable financing, which in turn enables them to operate more productively and efficiently, leading to higher incomes and the ability to repay their initial financing and borrow more. Such miners would also set an example for others to follow. Not only would miners have increased income, but diamond production and purchases would be more likely to stay in the formal sector—which is to the benefit of the government and its tax income. A relevant model exists in the cocoa/coffee sector, where financiers are able to directly check official documents and the production capacity of the loan recipient in order to assess the risks involved and determine the amount and duration of prefinancing that would be provided.

Reducing Lenders’ Risks. This system will not be easy to introduce, because of the potential risks for the banks making the loans or the entrepreneurs leasing equipment to the miners. The Ministry of Mines and the Ministry of Finance will need to give careful consideration to measures

that will help reduce those risks. The government can engage with private banks to ensure that they have branches operating in mining areas and lending windows that are accessible to small miners—recognizing that many miners may initially have little if any collateral to back their loans. If some initial loans can be made and repaid successfully, the banks would be willing to increase their activity. One of the conditions of borrowing could be that miners must make use of the training and technical assistance provided to prepare basic plans demonstrating that they will be mining in areas with good prospects and using improved mining methods.

Improving Financing for Artisanal Mining Operations

The Ministry of Mines and Ministry of Finance should discuss with commercial banks and other relevant parties

- the design of simple model contracts that could be used for prefinancing and leasing activities;
- what is needed for commercial banks to operate branches in mining communities and make financing available to artisanal miners in a transparent manner at risk-adjusted market rates;
- possible mechanisms to help protect or insure banks from losses where miners lack the collateral to back the loans;
- possible incentives, such as exemption from import duties on equipment, to encourage the creation of private leasing of mining equipment in the mining areas.

Improving the Performance of the Buying Sector

Challenges. Measures are needed to improve the operation of the diamond buying markets in the Central African Republic. Several problems affect the efficiency of the buying sector:

- **Market fragmentation and lack of information.** Although there are far fewer authorized buyers than miners—171 collectors and the 5 buying houses—the buying side of the industry remains highly fragmented and characterized by a lack of trust among the various parties. The dispersion of buying houses in various districts of Bangui contributes to an “every-man-for-himself” attitude, which is a distinct barrier to efforts to establish a more cohesive industry. Markets are most efficient when accurate and reliable information is available to buyers and sellers about prices and volumes; currently, no mechanism exists in the Central African Republic to facilitate the sharing of such information on the diamond industry by national and foreign experts. Market fragmentation is reinforced by the lack of a formal consultative and interactive framework between the government officials overseeing and administering the sector and the experts and buyers operating legally in the industry. There is also a lack of collaboration between government officials and public and private international professional organizations.
- **Financing.** There is a lack of transparency in the flow of money that prefinances diamond buying activities. Moreover, because representatives of buying houses are prohibited from operating at mining sites, miners are denied access to direct financing from the buying

houses. The global financial crisis resulted in a significant decrease in price and demand for diamonds worldwide, and the Central African Republic—like other countries—has seen a substantial decline in the liquidity of the international and local diamond industry, and a consequent lack of new investment by licensed operators.

- **Illegal buyers.** Unlicensed buyers proliferate in the Central African Republic diamond market and can include local merchants and business and diamond buyers from neighboring countries, as well as former representatives of buying houses that were closed by the government.

Two of the most important challenges for the country's diamond buying sector are (1) to ensure that all licensed traders have identification cards and use purchase books, and (2) to make diamond trading more transparent and improve the information available to licensed traders regarding sales and purchases.

Registration. All collectors and diamond buying houses operating in the Central African Republic are known and can be identified, but there are many individuals at mining sites and in mining areas who buy and sell diamonds without a license. Thus, the census and registration initiative described above should include not only miners but also individuals who are authorized to buy for a buying house or as a collector. Each needs to be registered and provided with an identification card and a purchase book; miners should be required to sell only to individuals with the requisite identification and who record purchases in a government-provided book.

Improved Information. Improving the quality of available information is not simply a matter of information management and dissemination, but will also involve a fundamental reorganization to bring a clear structure and order to formal diamond trading activities. At present, diamond purchases are made by collectors and the regional buying offices of the buying houses in the mining areas. This results in a highly fragmented market, where it is difficult for sellers and buyers to know prevailing market prices and diamond qualities. Both collectors and buying houses should be allowed to purchase diamonds at the mining sites. But all other sales should be conducted at a weekly market in a single building—a diamond buying center—in each mining area. The results of the diamond sales and purchases at all of the weekly markets should then be made public without delay. It is to be expected that there would be some initial resistance from artisanal miners who may be reluctant to see the value of their best diamonds known and who may need to set up their working week taking into account the day of the weekly market. However, in the present situation the 80,000 artisanal miners have much less information about prices than the 179 collectors and the agents of the buying house. Publication of sales transactions from weekly markets would considerably reduce this asymmetry of information which works to the disadvantage of the miners. These proposed arrangements should help significantly reduce the risk of diamonds sold by the miners being undervalued and, once the weekly markets are established and operating well, an important benefit is that they should result in higher diamond prices for the miners and better incomes than at present. There may also be resistance from the buying houses who will need to change how their regional buying offices operate. But the proposed arrangements will also provide operators with a secure environment and support services (banks, secured goods transporting companies, and so on) available in one place. And most importantly, from the government perspective, by limiting

sales transactions to the weekly market, it would also help to identify and then reduce illegal sales activities in the mining towns resulting in more diamonds staying in the formal sector and higher taxes for the government. Similar arrangements should be introduced at Bangui, with a weekly market held at which all purchases by all buying houses take place. While the buying houses would still maintain their subsidiary buying offices, these would primarily perform the tasks of diamond storage and record maintenance, not trading. The weekly diamond market in Bangui should be organized within one secure location.

Improving the Performance of the Buying Sector

In order to register and license all authorized buyers and establish weekly buying centers, the Ministry of Mines will need to take the following actions.

- Conduct a census of all legitimate buyers, register each person, and issue identification cards and purchase books
- Prepare the necessary legislation and conduct the requisite logistics to authorize and implement weekly diamond markets:
 - Undertake an assessment of the buildings at each mining area to select the most suitable building, with the best space and security, to be the site for a weekly formal diamond buying market at which miners and collectors can sell, and the regional buying centers can purchase, diamonds in secure conditions with price, quantity, and quality recorded and made publicly available.
 - Establish a weekly diamond buying market in Bangui in the Precious Metals Marketing Center where miners and collectors can sell diamonds to the buying house main offices—again, in a single building with adequate space and security and full public disclosure of trades.
 - Establish a management committee comprised of representatives from government, diamond miners, collectors, and buying houses to manage the proposed weekly diamond market in Bangui; have a similar committee at each mining area to manage its weekly buying market.
- Work with the commercial banking system and other sources of potential financing to create specialized financial institutions for the diamonds in Bangui to facilitate prompt transfer of funds; work with the commercial banks to set up branches in the main mining centers that would provide funding for collectors as well as for miners.
- Remove the prohibition preventing buying house representatives from entering diamond mining sites.

Reforming Diamond Export Pricing, Taxes, and Oversight

Challenges. The 12 percent tax applied to export diamonds and BECDOR's use of administrative prices rather than world market prices to calculate export taxes are two major factors that cause diamonds—especially large diamonds—to be diverted from legal channels and exported illegally. Additionally, the requirement that buying houses construct new buildings which are then turned over to the government is a source of dissatisfaction; the buying houses would far prefer to have

a clear tax regime of tax payments based on diamond sales plus license fees than to have to incur construction obligations as well. Along with improvements in the fiscal regime and pricing arrangements, an improved diamond mining sector will require stronger capacity and capability within the key institutions that have oversight of the diamond industry—in particular, the regional offices of BECDOR, the Ministry of Mines, and the KP Permanent Secretariat.

Diamond Export Taxes. The differential between the total tax take in the Central African Republic vis-à-vis its neighboring countries needs to be reduced for the higher value, large diamonds that appear to be the focus of most of the current fraud in the market. The differential need not be eliminated entirely, but there would be merit in narrowing it in line with the lower overall export taxes of 9 percent as applied to cooperatives. Since classification by BECDOR experts of stones of less than 4.85 ct is done by package and diamonds over 4.85 ct are analyzed piece by piece, an export tax of 12 percent could be applied on the packages and 9 percent could be applied to the individual stones by reducing the special tax on diamonds to zero instead of 3 percent. However, it might be more appropriate to use 2 or 3 ct as the cut-off; the diamond buying houses and international experts should be consulted in finalizing this figure.

Market Pricing of Export Diamonds. BECDOR's present system of using an administrative price list for diamond tax assessment should be replaced with prices linked to prevailing world diamond prices. This shift would prevent the circumstance of the administrative price becoming far out of line with the market price.

Reforming Diamond Export Pricing, Taxes, and Oversight

- BECDOR should abandon its administrative price for exports and instead base its price valuations for export tax assessments on prevailing international diamond market prices.
- The Ministry of Finance, together with the Ministry of Mines, should reduce the overall tax on higher value, large diamonds from 12 percent to 9 percent, by waiving the special tax on diamonds; and should consult with the diamond buying houses and international experts to determine the diamond weight at which this should apply.
- The Ministry of Finance, together with the Ministry of Mines, should consider eliminating the requirement for the buying houses to construct buildings to be handed over to the government or the local population and instead have a tax system based solely on the value of diamond sales.
- A diamond mining tax commission should be set up to consider new rules for taxing artisanal diamonds; these could include payments by collectors of both the fixed minimum tax and the special tax on diamonds.

Industry Oversight

BECDOR. BECDOR's role in the sector is crucial but the agency suffers from both capacity and institutional weaknesses in terms of grading capabilities and physical premises. The price of certain diamond grades has greatly changed, but BECDOR experts do not have a system

capable of regrading. New techniques allow a diamond to be processed to change its natural color or reduce its impurities. BECDOR should be able to identify evidence of these processes and have diamonds marked accordingly including on their KP Certificate. In the past, BECDOR used three diamond classifications (as per the Harmonized System): unsorted (7102.10), industrial (7102.21), and jewelry quality (7103.21); but today all diamonds are classified as unsorted, which makes it more difficult to monitor and measure trade in jewelry-quality diamonds. Also, BECDOR's present facility does not have sufficient space to accommodate all its employees involved in the valuation of diamonds, gold assay, and tax assessment and collection. There are concerns about the adequacy of security at BECDOR's facilities in Bangui, and—in coordination with a suitably qualified and experience insurance company—a robust security system should be put in place and measures instituted to cover the risks of theft, industrial accidents, civil liability, and so on.

Staffing and Resources. Improved capacity for BECDOR means ensuring that diamond evaluators are fully up to date in their training, especially regarding issues such as diamond coloring, and that they are rotated on a regular and systematic basis to ensure strong independence. More broadly, it also involves examining the overall resources and staffing for all three institutional groups to undertake their activities and ensuring that they are adequate to enable them to have a strong presence in the field and in Bangui and to be able to digitally record and transmit all the information they collect. It further entails improving Ministry of Mines communications and public relations with the various stakeholders in the diamond industry.

Strengthening Government Valuation and Oversight Capabilities

- The Ministry of Mines should
 - ensure that BECDOR performs systematic rotation of its evaluators and provides the training needed to keep them fully current with the latest valuation issues such as diamond coloring;
 - determine the staffing needs and capabilities of its regional offices, BECDOR, and the KP Permanent Secretariat and their equipment, business, and information systems and facility needs and availabilities and take the necessary actions to ensure they have sufficient staff in terms of both numbers and skills and sufficient equipment, systems, and facilities for thorough monitoring of mining and buying activities at the sites, in the mining areas, and in Bangui;
 - assess whether it is feasible to return to a three-category classification of diamonds to distinguish among unsorted, industrial, and jewelry-quality diamonds.
- The ministry should consider increasing the number of its regional directorates so as to deal effectively with all areas where diamond mining and buying takes place.
- The ministry should create a new diamond industry promotional and public relations body with (1) a communications department to communicate with the public and institutions and (2) a diamond buyers department managing a one-stop shop for diamond industry professionals.

Identification and Investigation of Diamond Mining, Sales, and Fraud

Challenges. The widespread nature of illegal sales and exports in the diamond sector reflects a broad range of factors, including a lack of both the willingness of the industry to operate in a fully legal manner and the motivation and commitment on the part of government agencies to have the industry operate within a legal and regulatory framework. There are institutional weakness in law enforcement and a lack of proper mechanisms to combat fraud in the diamond trade. Furthermore, the poor security situation in the country's mining areas only increases the difficulty of conducting regular checks of diamond production, sales, and purchases. With regard to mining, there is insufficient staff in the Ministry of Mines regional mining offices to monitor mining activities and production recording and to enforce registration so that all artisanal mining operations are legalized and thus protected under the law. The procedures and capacity for diamond exports and quality control remain rudimentary. Even where fraud is suspected or known, legal actions are infrequently taken against companies charged with fraud. And, at the national level, there are no ethics or anti-corruption institutions. There is a similar lack of commitment to cracking down on diamond smuggling by some international buyers and some governments of other countries. Double standards and conflicts of interest riddle the international community, and once diamonds are exported illegally, there is little concrete action taken by the international community to effectively deal with fraud in the sector.

Diamonds as a Strategic Resource. The importance of the diamond industry to the Central African Republic's national budget and future sustainable development, combined with the potential for gold mining to become an important future economic activity in the country, provides justification for the government's adoption of stringent measures to combat fraud. The proposals set forth here to reduce registration fees and enable all miners and buyers to obtain registration cards at the mining sites along with the required books in which to record diamond production, sales, and purchases—all for no fee and in a highly convenient manner—should eliminate any legitimate opposition to registration. The government will be in a strong position to prepare and enact legislation declaring diamonds (and possibly also gold) as a “strategic resource of the national economy” with substantial penalties for illegal sales, smuggling, and tax evasion.

Special Diamond Anti-Fraud Unit (USAF). Given the extensive secrecy surrounding diamond mining, sales, and purchases, an important pillar in the fight against fraud would be the effective operation of USAF, which was created by law in 2009 to operate across the country and eventually replace the present mining brigades. As part of its activities in preventing and deterring fraud, USAF should organize a national information network whereby individuals could report fraud (illegal transactions and smuggling). It should also investigate allegations of fraud and operate as a mining police force with the authority to apprehend those accused of fraud and hand them over to the national police for prosecution. USAF should be largely independent, and should make monthly reports to the president and prime minister. It should be headquartered in Bangui with offices in each mining area. At the international level, it should seek to establish partnerships and operate with the collaboration of competent entities in relevant countries. USAF is still in its early stages of establishment with 30 staff but it should be built up and given the necessary financial and

logistical support for its operations, especially those in the mining regions, with adequate staffing and training and with mechanisms to facilitate strong linkages with mining engineers, formal sector operators, and mining community representatives to ensure USAF's full effectiveness. It is strongly recommended that USAF be encouraged to undertake the above responsibilities with diligence, true national dedication and genuine concern to the improvement of the living conditions of the people of the Central African Republic as a whole.

Working closely with the Ministry of Mines regional mining offices, USAF would be responsible for obtaining information and investigating and policing fraud and for monitoring the use of production, sales, and purchase record books. The Ministry of Mines regional mining offices would be responsible for compliance with mine safety and environmental regulations, as well as coordinate the provision of training and technical assistance to miners. In cases where the offices identify possible cases of non-registration or unreported production and/or sales, these would be turned over to USAF for investigation and action. Once diamonds were seized and the illegal sales proven, the seized diamonds would then be sold in the marketplace and the informant rewarded (perhaps with 20 to 30 percent of the actual value of the illegally traded diamonds). This reward should be provided promptly after sale of the product, and mining authorities would need to protect the identity of such informants. USAF would also act in partnership with or through the relevant authorities in other countries to identify and confiscate smuggled diamonds.

Identification and Investigation of Diamond Mining, Sales, and Fraud

The Ministry of Mines should prepare and propose legislation to declare diamonds (and possibly also gold) as a "strategic resource for the national economy" so as to initiate legal action for every proven offense and to institute tougher sanctions (fines and imprisonment) against violators of mining legislation.

- The government should establish an anti-fraud detection and mining inquiry unit as a state-owned fraud information and mining police organization, reporting to and appointed by the minister of mines, to identify, investigate, and apprehend those suspected of diamond fraud.
- The proposed new communications department should prepare a communications campaign to reach out in a proactive manner to international diamond dealers and governments of other countries where diamonds are being smuggled to enlist their support in reducing smuggling of Central African Republic diamonds.

Reducing Poverty and Improving Health, Safety, and Environmental Impacts

Challenges. Diamond industry reform can also contribute to reducing poverty through higher diamond-related wages and incomes for miners and mine workers, more indirect and spin-off employment, and better health, safety and environmental performance. Presently lacking are initiatives to improve the potential benefits of artisanal mining (which are primarily direct and indirect employment and income) and to reduce the potential harm and risks caused by artisanal

mining. Artisanal mining areas have an advantage over many other rural areas in terms of a cash economy associated with mining, the development of townships in well-established artisanal mining areas, and (sometimes) better transportation links to population centers. The return of part of the fees and possibly also diamond taxes to the mining localities could support community-related development initiatives. Given these conditions, capital could be mobilized to support other employment opportunities in these areas, such as agriculture or cottage industries. These opportunities can be increased through local planning efforts, especially those that could attract possible sources of capital such as banks or microfinance schemes. Local level planning activities should be undertaken by Local Mining Area Committees composed of local government officials, community leaders and representatives, including women's groups' representatives, to design and implement socioeconomic programs to improve living conditions in the mining areas would be the starting point for such initiatives. Once local priorities are developed in this manner, they could be supported by the government channeling back some of the artisanal mining fees and taxes to local mining communities.

Vulnerable Groups, Women, and Children. An important element of any poverty reduction work is to recognize the most vulnerable groups in a community which include women, children, youth, the sick, and the elderly. Women make up half or more of mining community residents and can also be a significant part of the artisanal mining workforce. Faced by low incomes and poverty, children become part of the mining workforce to the detriment of their health, safety, education, and future prospects. Women are also the caregivers for men who are injured in artisanal mining, and they are often subsistence farmers as well as mine workers depending on the season. There are also many girls and young women who migrate to mining areas in search of employment and find themselves resorting to prostitution to earn a living. Thus, recognizing the gender-related impacts and the impacts on vulnerable groups such as women, children, and youth is a crucial element of any artisanal mining poverty improvement strategy.

Improving the Impacts for Women and Other Vulnerable Groups

With the aim of improving the potential for artisanal mining to help reduce poverty in the Central African Republic, the Ministry of Mines should undertake separate consultation with women's groups and local women's representatives to identify the extent to which women and other vulnerable groups, in particular children and youth, participate in artisanal mining in order to better understand

- the specific risks for the most vulnerable, both at artisanal mine sites and in artisanal mining towns;
- the extent to which women and other family members do or do not share in the employment and income benefits of mining and non-mining activities around mining communities

The results of the consultation could then become the basis for specific initiatives to reduce and mitigate the risks of artisanal mining for women and other vulnerable groups and to increase and enhance their access to the opportunities for benefits that artisanal mining can bring.

Women should be included in community planning process and consideration should be given to including community program initiatives specifically focused on women and other vulnerable groups.

Safety and Health. The safety and health risks are generally greatest for the most vulnerable, many of whom are women and children. Thus, improving the contribution of the diamond industry to health, safety, and environmental protection will entail the Ministry of Mines working with other ministries and agencies to develop initiatives to identify measures to reduce the social, safety, and health risks for women and children, including girls and young women who migrate to mining areas in search of employment. It will also entail the Ministry of Mines working with the Environmental Ministry and other agencies to develop initiatives to identify measures to reduce the environmental harm from artisanal mining, initiate rehabilitation of artisanal mining sites, and guide the design and implementation of training courses and technical assistance to meet particular local needs.

Local Area Committees. With the support of the Ministry of Mines, through its regional mining offices, the Local Area Committees could also consult on and monitor health, safety and environmental conditions in the mining areas and provide their feedback to the Ministry of Mines on progress made in implementation of program components such as training and education efforts.

Improving the Industry Contribution to Local Development and Strengthening Environmental Protection

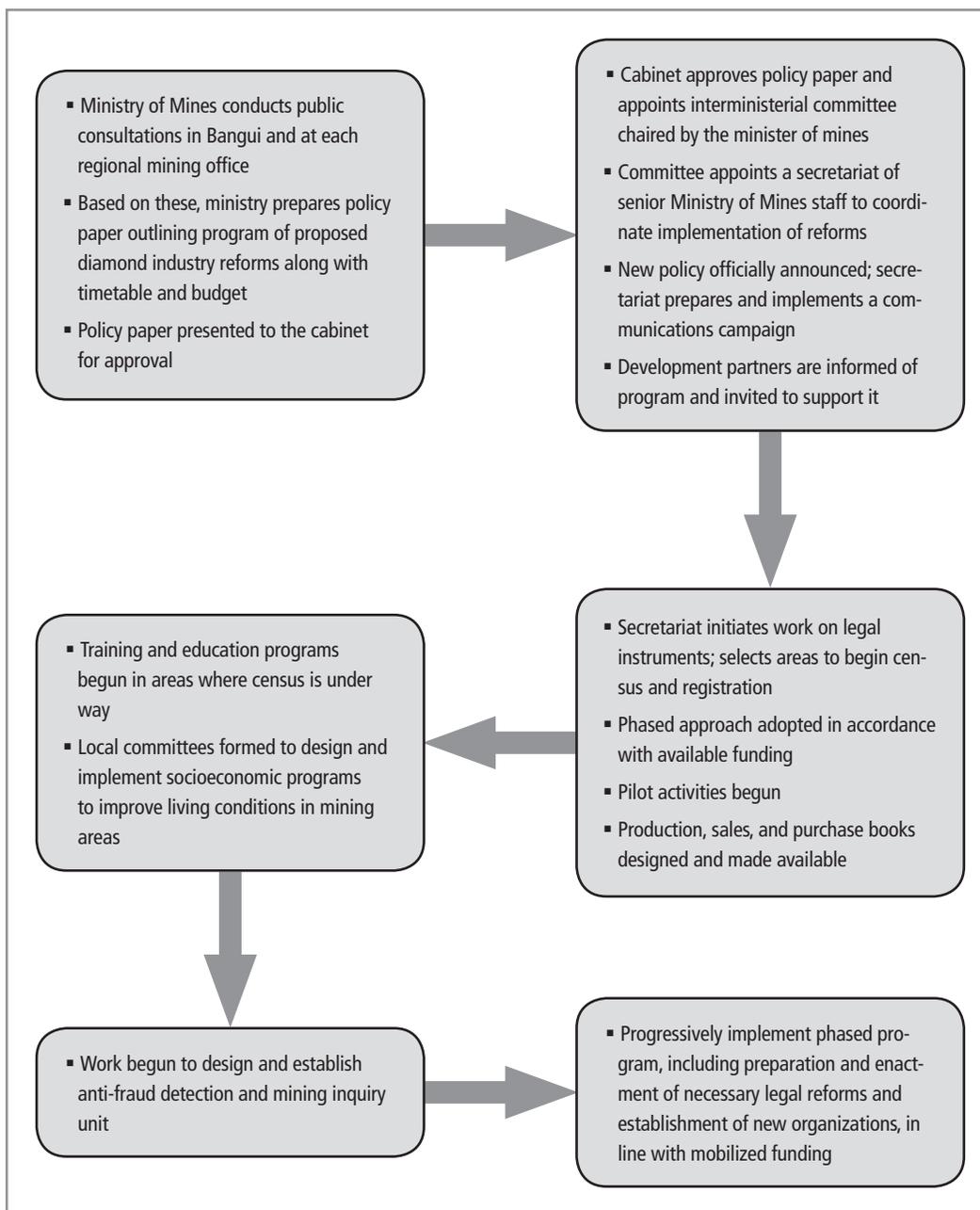
The Ministry of Mines, through its regional mining offices, should help organize local mining area development and monitoring committees made up of local representatives, including local government officials and representatives of civil society groups (such as women's and youth groups) These committees will

- consult on and monitor conditions in the mining areas and report to the Ministry of Mines on progress made in implementation of program components such as training and education efforts,
- help monitor and enhance the performance of the mining industry and manage development programs in their respective regions, all with the aim of improving mining community employment and incomes.

Preparing a Roadmap and Implementation Plan

The approach presented above represents a very ambitious and wide-ranging agenda which will require considerable resources and staff if it is to be undertaken. The census and registration activities and the preparation and distribution of identification cards and production and sales books to as many as 80,000 artisanal miners plus identity cards for another 320,000 mine workers, will require considerable manpower and resources. While the Ministry of Mines should take the overall lead, other ministries—including, for example, the Ministry of Finance—should be involved, as well as local government officials and local-level organizations. Given the size of the task and the fact that the industry is highly dispersed, program implementation will be a multiyear effort phased over a several year time period. The following paragraphs map out a possible plan of action, which is summarized in figure 7.1.

Figure 7.1 Draft Roadmap for Reform of the Diamond Industry in the Central African Republic



Source: Consultant representation.

Cabinet-Approved Policy Paper. The Ministry of Mines should begin by preparing a policy paper (*déclaration de politique minière*; see appendix A) that outlines the program of reforms to be undertaken. This paper should then be presented to the cabinet for approval; in this way, the rest of the government will be fully informed of the proposed program and the program will be endorsed by the government as a whole. Most importantly, this process would confirm support for the policy's key elements, in particular, the census and registration of miners and buyers, the establishment of

weekly buying markets, and the creation of USAF. The policy paper could be prepared within six months. This report, or sections of it, could be the basis for a roundtable in Bangui and at each of the mining towns where Ministry of Mines regional mining offices are located so as to obtain initial input from miners, buyers, and other interested parties, including women's representatives, before the policy paper is submitted to the cabinet. Once approved by the cabinet, then implementation can be planned and an indicative timetable and budget prepared which could then be presented to the Central African Republic's development partners to determine what types of support would be available for finalizing program design and for program implementation.

Interministerial Committee. Careful consideration will need to be given to organizational arrangements for implementing the policy. A high-level interministerial committee, chaired by the Ministry of Mines, should be appointed by the cabinet to oversee the policy implementation and to be the final authority regarding interministerial issues. The committee could meet every six months to monitor progress in policy implementation, or more frequently to address any issues that arise. The committee could be supported by a small secretariat located within the Ministry of Mines and staffed by ministry personnel. The head of the secretariat would be responsible for overall coordination of policy implementation. This position would have the same status as the general directors of the General Directorates in the Ministry of Mines and, like them, would report to the general director of mines and through him to the minister. Early on, the secretariat should prepare a public announcement and publications to inform the industry and general public about the program; these should be integrated into a communications campaign to announce the program and the steps being taken to implement it.

Legal Instruments. The secretariat should take the lead in coordinating the preparation of the legal instruments that will be needed to accomplish some of the reforms, including drafting necessary amendments to the mining code to develop a commercial diamond center as part of the Precious Metals Marketing Center in Bangui and to establish regional buying centers in towns close to diamond production sites. These amendments should ban any commercial activity outside of these centers. The program will require a number of changes to the mining code and possibly to other laws; drafting of these changes should be begun upon cabinet approval of the policy paper. The secretariat should also take the lead in identifying suitable buildings in Bangassou, Berberati, Bouar, and Bria and in establishing diamond buying centers.

Census and Registration. A phased approach should be taken for implementation of the census and registration, and the areas to be covered first should be selected on the basis of two criteria: (1) those with the highest concentration of miners and the highest production and/or (2) those where smuggling and fraud are considered to be most prevalent. More than likely, a number of areas will meet both criteria, some in the vicinity of the regional mining offices. The diamond production and sales and purchase books will need to be carefully designed to ensure that they are reliable, and a related information system will need to be developed for recording the results of book checks and of the reconciliation of production and purchase records.

Training and Education. Development of the program's training and education component will need the support of the local educational institutions that will likely provide the training. Training priorities should be linked to those areas in which registration is occurring. The regional offices

of the Ministry of Mines would have a key role to play in ensuring that the training is designed to fit local needs, that the miners are aware training is being provided, and that the training is delivered in an appropriate and readily accessible manner. The ministry should consider preparing and implementing three or four pilot projects in mine exploration areas, possibly with technical assistance from the Communities and Small Mines Program. Some existing gold/diamond mining pilot projects associated with seasonal agriculture may provide insights into how artisanal and small-scale mining development can contribute to raising mining community living standards and help fight poverty in the Central African Republic. A two-phase project investigating some of these issues has been initiated under the auspices of the University of Bangui; this project could make a useful contribution in this regard.¹

Implementation through Phased Approach. The program calls for a phased approach, which would help stretch out costs over several years. Some of the actions, such as the census and initial registration of miners and buyers, are essentially one-time actions for which development partner funding can be sought. The training and education programs for the miners, and the community support and development programs to be designed and implemented by the local mining communities, might also be able to attract donor financial support. But other policy implementation activities will entail substantial increases in annual budgets for existing organizational units such as the Ministry of Mines regional mining offices and BECDOR as well as for new entities to be created under the program. If the reforms are successful in reducing fraud and thereby increasing government revenues, some of these funds could be made available to help meet recurring costs of implementing the reforms and could also contribute to helping fund socioeconomic programs to improve living conditions in the mining areas. If government revenues do not increase, however, it will likely be very difficult for USAF and the Ministry of Mines regional mining offices to operate effectively.

¹ This project aims to uncover the root causes of fraud in the diamond industry, focusing on artisanal miners, village cooperatives, and buying houses to identify issues of productivity and profitability at the local, regional, and national levels. The project includes a social survey of villagers, a market survey of licensed collectors, and a geological and mining study; it is being conducted in Boganagone, Yaloke, Nola, and Berberati.

Appendix A: Example of Artisanal Diamond Mining Policy Paper

Following is an example of what might be included in an artisanal diamond mining policy paper (*déclaration de politique minière*) for the Central African Republic.

A. Objective

The government of Central African Republic intends to create an enabling environment for responsible artisanal diamond mining that will

- encourage the growth of legal diamond mining and sales,
- reduce illegal sales and smuggling of diamonds,
- benefit the diamond miners and their communities,
- benefit the country as a whole through exports and tax payments.

B. Present Situation of Diamond Mining in Central African Republic

The Central Africa Republic is endowed with diamond bearing lands areas especially in the south and west of the country from Bangui to Berberati including Boda, Carnot, and Nola and in the east around Bria and Bangassou. Diamonds play an important role in the life of the country, but the diamond industry has contracted over the past decade. Legal diamond production has declined from 461,004 ct in 2000 to 310,468 ct in 2009, and the value of exports has declined from 44,954 million CFAF to 23,310 million CFAF over the same period

Even so, artisanal diamond mining provides a full or partial income for 80,000 artisanal miners and the teams of workers that work for them. Taking into account the families of these workers, diamond mining is essential to the livelihoods of as many as 2–3 million of the Central African Republic's population. But the incomes from mining are often meager with relatively the large profits obtained by the diamond buyers rather than going to the diamond miners.

Many miners lack the skills to identify promising sites to mine, have rudimentary mining methods, and do not pay sufficient attention to health and safety issues. Many also lack the literacy and commercial skills needed to obtaining financing and depend on buyers to prefinance their mining activities, which puts the miners at a disadvantage because they must sell their diamonds to their financiers.

The distribution of minerals benefits and risks within a remote ASM mining community is highly skewed, with the vast majority of the benefits (which are mostly employment and income in its many forms) going to men, and the risks (which include social, environmental, economic, and cultural risks) falling largely on women and the families they care for.

Diamond mining can also cause serious social, safety, and health risks for children, who become involved in mining activities. Many girls and young women who migrate to mining areas in search of employment find themselves resorting to prostitution to earn a living.

Diamond mining also has the potential to provide greater overall net benefits to communities. But there are unaddressed health, safety, and environmental risks both at the mine workings and also at the nearby mining townships which need to be mitigated. Mining also offers an economic base from which other income earning and business activities can develop, but such benefits are largely unharnessed at present.

While firm figures are not available, there are considerable illegal sales and smuggling of diamonds to other countries. The problem of illegal sales starts at the mine site where less than 10 percent of the miners are legally registered—thus 90 percent of production is from the informal sector. While much of this production is bought and sold through legal channels, a large part is estimated to be sold to unlicensed buyers and is smuggled across the borders to neighboring countries from where the diamonds are exported—sometimes legally and sometimes illegally—to international cutting centers in Europe, the Middle East, and Asia.

The government considers that the country has considerable potential to see a recovery of its diamond production to previous levels and to see a reduction in the amount of unreported production, illegal sales, and smuggling. With this end in mind, the government intends to ensure that the development of the Central African Republic's diamond resources will be

- guided by laws, rules, and regulations governing the sector that are simple, clear, and understandable;
- overseen by institutions with clear mandates, authorities, and responsibilities and that are well resourced, competent, and noncorrupt, with registration and licensing procedures that are accessible and affordable;
- designed to secure the maximum benefit for both local communities and the economy as a whole, with resources being used primarily to promote sustained economic growth for both men and women.

C. Legal, Regulatory, and Fiscal Aspects

Registration

Diamonds and other extractive resources are national assets belonging to the citizens of the Central African Republic, and the laws and regulations will ensure that decisions around their exploitation and sale will be transparent and open to public scrutiny.

The government will create an effective legal framework to curb illegal mining through the registration of ASM miners. Miners will be required to register with the government but registration will

be made highly accessible and affordable so that no artisanal miner or mine worker will have the excuse that they could not get to a registration location or afford the registration fee.

The government will aim at 100 percent registration compliance by artisanal miners and mine workers within a five-year period. The regulations will assure miners of their land tenure, mining rights, and transfer of mining rights.

Buyers will also be required to be licensed and to pay license fees. Strong sanctions and penalties will be placed on unlicensed buyers and their diamonds will be confiscated.

Production and Sales Books and Purchase and Sales Books

Miners will be provided with production and sales books; buyers will be provided with purchase and sales books; and all will be required to keep accurate records of their activities so that production, sales, and purchases can be verified.

The production and sales books and the purchase and sales books will be used as the basis to establish a chain of custody certification especially for large size, higher value stones. High-value stones will require a government approved certificate of origin to accompany the stone after the mining stage.

The Ministry of Mines will undertake a communications campaign to raise the awareness of both buyers and sellers and to communicate the government's serious intent in this regard.

Diamond Mining Productivity

Diamond mining productivity will be improved both through on-site technical assistance and training regard selection of areas to mine and mining techniques and through initiatives to provides miners greater access to affordable financing so that equipment can be improved and upgraded.

Fiscal Aspects

Taxes will be set so that they are equitable and competitive with neighboring countries, especially for higher value stones. Substantial penalties will be imposed on miners and traders who attempt to avoid taxes or keep stones out of legal channels.

Given the current role of neighboring countries in reducing diamond smuggling, initiatives will be taken to examine regional harmonization of taxes/import-export procedures as an important step in order to curb smuggling.

Export Procedures

Export procedures will be designed to facilitate the export of diamonds and the import of equipment and supplies that are needed for efficient mining.

Environment, Health, and Safety

Diamond mining can have serious environmental, health, and safety effects, which must be recognized and mitigated. These include not only impacts at the mine sites but also impacts within the local townships and dwelling areas.

These will be addressed both through setting environmental, health, and safety guidelines and by providing technical assistance and training to help miners improve their operations in this regard.

D. Institutional Aspects

The roles and responsibilities of key government departments and agencies (namely the Ministry of Mines, BECDOR, USAF, Ministry of Environment, and Ministry of Finance), local government leaders, community leaders, and civil society organizations are as follows in order to avoid any possible interagency competition or duplication of roles:

Ministry of Mines

The Ministry of Mines is responsible for licensing, registration and oversight of all diamond mining, buying and selling and exporting activities. Within the Ministry of Mines,

- the **Programming, Study, and Research Directorate**, is responsible for the mining cadastre, mining technical services, laboratory and assaying services; documentation, drawing, and mapping services;
- the **Marketing, Industry, and Mining Registry Directorate**, is responsible for industry data and for an inventory of producers and traders involved in the mining industry and their production figures;
- the **Mining Production Support Directorate**, is responsible for environmental protection services; and mining technical and material support and services;
- the **Regional Mining Directorate** and its four regional offices are responsible for registration of miners, inspection of ASM mining activities including oversight of health, safety, technical, and environmental aspects of ASM diamond mining, development of training and technical assistance programs according to the priorities in different mining regions and localities and coordination of training implementation.

BECDOR

BECDOR reports to the Ministry of Mines and is delegated by Ministry of Mines to be responsible for oversight and licensing of diamond buyers, diamond evaluation, and export sales and tax and fee collection.

USAF

USAF is responsible for the policing of the artisanal miners and buyers, checking and verifying production and sales books, identifying fraud, organizing a national information network for fraud to be reported, investigating allegations of fraud, apprehending those accused of fraud, and establishing international partnerships to reduce diamond smuggling.

Measures will be taken to ensure high standards of honesty among police and ASM mining officials tasked with governing the sector.

Ministry of Environment

The Ministry of Environment is responsible for issuing all environmental protection regulations and setting all environmental compliance standards for the Central African Republic.

Ministry of Finance

The Ministry of Finance is responsible for setting the tax regime for diamonds and for working with the Ministry of Mines to determine the Ministry of Mines annual budget and for addressing the funding needs of implementing this policy.

Interministerial Committee

A high-level interministerial committee, chaired by the Minister of Mines, will be appointed by the cabinet to oversee the implementation of this policy and to be the final authority regarding interministerial issues.

Ombudsman's Office

An independent ombudsman's office will be established to respond to conflicts or grievances

E. Improving Impacts, Training, and Technical Assistance

Local Government Leaders

Local government leaders are responsible for preparing local community development plans which would be the basis for increasing non-mining economic activities including identifying the need for and sources of small business training and financing.

Local Mining Area Committees

Local mining area committees will be established to hold artisanal diamond miners responsible to local community needs, design and implement local programs aimed at developing new employment and income-generating opportunities, attract microcredit schemes, improve adult literacy, and contribute to the design and implementation of training courses and technical assistance to meet the particular local needs.

These committees would also monitor socioeconomic development activities in mining areas and their surrounding communities.

Community Leaders and Civil Society Organizations

Community leaders and civil society organizations are responsible for presenting community views and concerns, including the views of the most vulnerable such as women and children, and for supporting the design and implementation of local community development plans.

Environment, Social, Health, and Safety

The government will take initiatives to increase and improve the benefits for women in terms of community economic empowerment and small business programs and in terms of minimizing and mitigating risks for women and children at the mine sites and in the mining communities.

The government places a high priority on the well-being of the most vulnerable in society and the risks for children and young men and women will be reduced and mitigated through community and social programs to be administered by local governments and civil society organizations.

Education, Technical Assistance, and Training

The Ministry of Mines will help inform, educate, and support ASM miners by overseeing and coordinating the design and provision of on-site technical assistance and training for diamond miners in geology, extraction techniques, health, safety and environmental issues.

Artisanal diamond mining sites after often abandoned without proper rehabilitation and reclamation. Initiatives will be taken to train miners to undertake some rehabilitation as part of their mining activities.

Educational and training institutions will be responsible for delivery of training and technical assistance for the artisanal diamond miners and mine workers.

The Ministry of Rural Development will oversee and coordinate the design and provision of vocational training in mining and entrepreneurship, including the provision of small business establishment and operation skills, for artisanal diamond mining community members. Special attention will be given to ensuring that women have access to and are able to benefit from such training.

The Ministry of Mines will provide specialist training to artisanal mining officials in the Ministry of Mines, and in the regional Ministry of Mines offices, so that the sector can be administered effectively and efficiently.

Consultation and Conflict Resolution

The Ministry of Mines will consult with miners, buyers, and diamond communities and take into account their views in finalizing the declaration.

The Ministry of Mines will work with other relevant ministries to consult with women's groups to ensure that some of the mining community initiatives are specifically focused on improving women's economic and social empowerment and well-being.

The Ministry of Mines will establish a Diamond Sector Working Group with representation of miners, buyers and mining community leaders, including women's groups, which will meet on a regular basis to be informed of government activities in implementing the declaration and discuss any related diamond issues.

The Ministry of Mines will establish a grievance procedure to address any issues of concern as measure are implemented to increase registration and reduce unreported production, illegal sales, and smuggling.

Benefit Sharing

The Ministry of Mines will work with other relevant ministries to ensure that men and women from diamond mining communities benefit directly from the diamond mining industry through

improved education, health, and infrastructure such as the provision of roads and bridges, affordable electricity, and through incentives for the creation of industry-related livelihoods.

The Ministry of Mines and Ministry of Finance will work together to identify and address obstacles to men and women obtaining small business loans or microcredit for both ASM mining activities and for non-mining activities.

The Ministry of Finance is responsible for examining possibilities for gradually building up funding for government programs that invest in local community development projects on a sustainable basis.

Appendix B: World Diamond Production

Table B.1 World's Largest Diamond Exporters, 2004 and 2008

Country	2004			2008		
	Volume (ct)	Value (\$)	\$/ct	Volume (ct)	Value (\$)	\$/ct
Angola	6,146,000	788,139,000	128.23	7,389,000	995,408,000	134.71
Botswana	28 947,000	2,562,606,000	88.53	26,950,000	2,966,145,000	110.06
Central African Republic	349,000	51,592,000	147.64	377,000	37,749,000	126.59
Congo, Dem. Rep. of	3,0162,000	720,899,000	23.90	21,284,000	551,88,000	25.93
Ghana	920,000	26,323,000	28.60	629,000	19,959,000	31.73
Guinea	693,000	47,206,000	68.12	3,097,000	66,705,000	21.54
Namibia	2,030,000	678,823,000	334.39	1,911,000	764,656,000	400.09
Sierra Leone	692,000	126,653,000	183.09	371,000	98,772,000	266.05
South Africa	14,823,000	1,835,694,000	123.84	10,023,000	1,416,403,000	141.31
Tanzania	302,000	34,784,000	115.30	221,000	22,301,000	101.07
Zimbabwe	18,000	3,582,000	193.83	328,000	26,693,000	81.42
Australia	21,735,000	287,801,000	13.24	15,444,000	371,571,000	24.06
Brazil	227,000	21,668,000	95.42	107,000	9,362,000	87.64
Canada	12,732,000	1,505,140,000	118.21	16,472,000	2,416,652,000	146.71
Russia	33,138,000	1,324 370,000	39.97	24,472,000	1,607,134,000	65.67

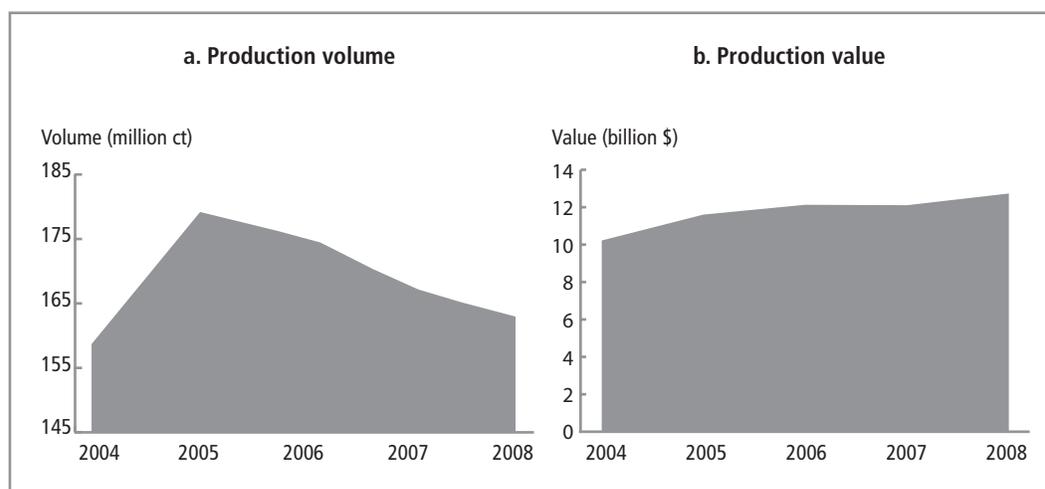
Source: KP Statistics Center.

Table B.2 World's Largest Diamond Producers, 2004 and 2008

Country	2004			2008		
	Volume (ct)	Value (\$)	\$/ct	Volume (ct)	Value (\$)	\$/ct
Angola	6,146,000	788,139,000	128.23	8,907,000	1,209,790,000	135.83
Botswana	31,036,000	2,576,018,000	83.00	32,276,000	3,273,001,000	101.41
Central African Republic	348,000	51,709,000	148.50	377,000	47,752,000	126.59
Congo, Dem. Rep. of	30,040,000	536,244,000	17.85	33,402,000	431,833,000	12.93
Guinea	674,000	39,526,000	58.65	3,098,000	53,698,000	17.33
Namibia	2,007,000	673,142,000	335.36	2,435,000	918,033,000	376.99
Sierra Leone	692,000	126,653,000	183.09	371,000	98,772,000	266.05
South Africa	14,092,000	1,075,761,000	76.34	12,901,000	1,236,240,000	95.82
Tanzania	302,000	34,784,000	115.30	237,000	24,083,000	101.33
Zimbabwe	44,000	7,984,000	179.61	797,000	43,825,000	54.97
Australia	20,212,000	314,035,000	15.54	14,932,000	326,394,000	21.86
Brazil	300,000	26,423,000	88.08	80,000	6,221,000	77.55
Canada	12,680,000	1,644,685,000	129.71	14,803,000	2,254,711,000	152.32
Russia	38,866,000	2,205,430,000	56.74	36,925,000	2,508,957,000	67.95

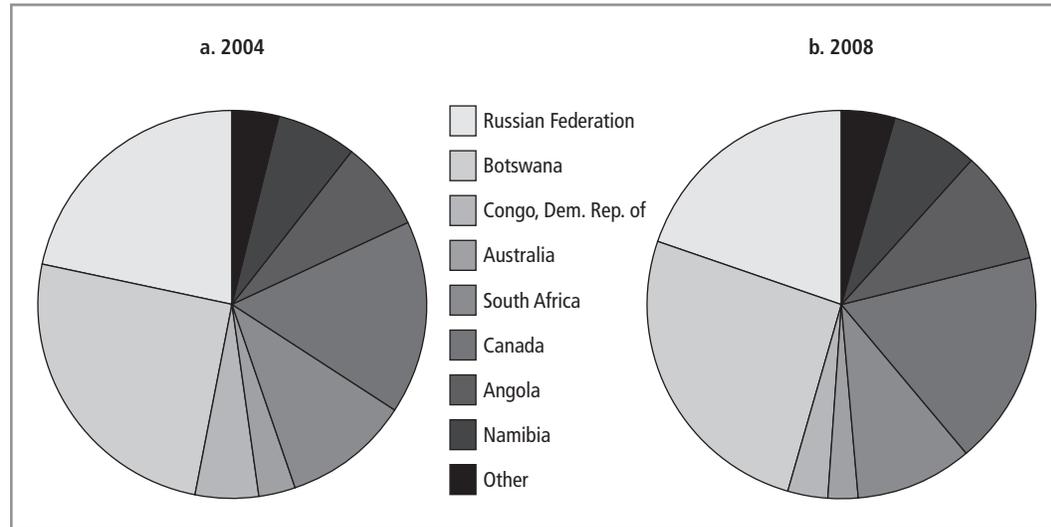
Source: KP Statistics Center.

Figure B.1 Fluctuations in World Diamond Production, 2004–08



Source: KP Statistics Center.

Figure B.2 Country Shares of World's Rough Diamond Production, 2004 and 2008



Source: KP Statistics Center.

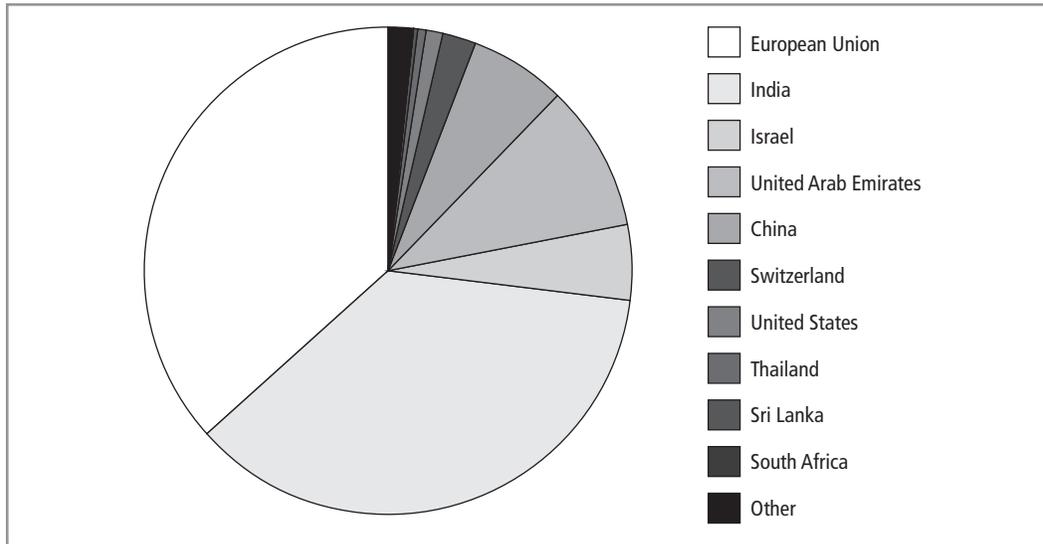
Table B.3 World's Largest Rough Diamond Importers, 2004 and 2008

Country/ region	2004				2008			
	Volume (ct)	%	Value (\$)	%	Volume (ct)	%	Value (\$)	%
European Union	193,676,000	38.78	12,472,281,000	39.11	147,551,000	36.41	14,507,530,000	37.51
India	186,665,000	37.37	7,523,672,000	23.59	147,786,000	36.47	9,591,556,000	24.80
Israel	41,801,000	8.37	6,021,975,000	18.89	20,725,000	5.11	5,357,613,000	13.85
UAE	28,224,000	5.65	883,899,000	2.77	38,776,000	9.57	2,155,662,000	5.57
China	26,108,000	5.23	1,559,927,000	4.89	26,659,000	6.58	2,331,180,000	6.03
Switzerland	12,545,000	2.51	882,075,000	2.77	8,434,000	2.08	1,560,438,000	4.03
United States	3,559,000	0.71	792,176,000	2.48	4,743,000	1.17	742,858,000	1.92
Thailand	2,144,000	0.43	408,219,000	1.28	2,220,000	0.55	512,220,000	1.32
Sri Lanka	1,174,000	0.23	150,992,000	0.47	777,000	0.19	302,228,000	0.78
South Africa	928,000	0.20	608,642,000	1.91	558,000	0.14	509,889,000	1.32
All other	2,615,000	1.23	583,377,000	1.83	7,007,000	1.73	1,104,604,000	2.86
Total imports	499,439,000	100	31,887,235,000	100	405,236,000	100	38,675,778,000	100

Source: KP Statistics Center.

Note: UAE = United Arab Emirates. Data in "%" columns are country/region's share of total rough diamond imports.

Figure B.3 Country Shares of World's Rough Diamond Imports, 2008



Source: KP Statistics Center.

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