



**DIPAM (Diamond Policy and Management) Project**

**Third Semi-Annual Report: 1 November 2003 to April 30 2004**

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## SUMMARY

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The Diamond Policy and Management Project (DIPAM) forms an integral part of the MSI diamond sector reform program. MSI has continued to scope out the appropriate role for supporting the USG in diamond policy dialogue, and during this period DIPAM staff served as part of the national technical review team, ensuring more robust action and as secretariat to the High Level Steering Committee. As in the past, activities, and progress within one Cooperative Agreement mutually reinforces the other.

Vital focus areas of the DIPAM project remain continued strategic involvement with other donors in National Policy formulation, strengthening governance of the diamond mining sector by continued support to the Ministry of Mineral Resources (MMR), advice to the Government on anticipated income flows, reviewing and improving diamond export regimes, reviewing export valuations, refining an effective pilot chain of custody system for diamond mining, and improving linkages with the Kimberly process and export monitoring. Support the PDA, through bringing local issues to the national forum and by assisting the creation of the framework to provide credit to miners, has been maintained.

During this period the MSI team again exerted considerable energy formulating the Integrated Diamond Management (IDM) Program, including attempting to access additional funds from DfID. IDM will constitute our core activity in the coming year in our efforts to restructure the alluvial diamond industry in Sierra Leone. The program includes an Earth to Export program to track diamonds, a credit program for miners, and a diamond-buying scheme in support of our objectives and the Kimberly Process. However funds are yet to be made available, barring the deeper penetration of our work.

## ACCOMPLISHMENTS DURING THE PERIOD

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The following was accomplished during the period:

### ***National Policy***

- ◆ The DIPAM program continued to serve as the **Secretariat** to the **Donors High Level Steering Committee on Diamonds**. Our assistance has improved the efficiency of the Committee, through the establishment of a technical review committee. The technical committee plays a key role in shaping government policy. Crucially this role provides program access to top decision-makers, strengthening our ability to bring lessons learned from both projects into the national debate. Using critical local inputs from the Peace Diamond Alliance, and DIPAM monitoring reviews, the technical committee has already addressed reforms to the DACDF, provided insight into problems surrounding the Koidu Kimberlite Project resettlement program and highlighted government responsibilities.
- ◆ DIPAM, in conjunction with USAID/SL, DfID, UN and World Bank, redrafted the Government of Sierra Leone Core Mineral Policy, which has now been approved by Cabinet. Following a Support

Planning workshop, MSI staff are prioritizing responses and redefining benchmarks toward implementation.

- ◆ In developing systems that could support direct foreign investment in mining cooperatives, it became clear that it would be very advantageous if mining cooperatives would be able to export their product directly, without having to obtain a costly export license. After direct dialogue the GOSL agreed to permit coops to export, provided they paid a 5% tax. This is a major breakthrough in empowering local people to benefit from their resources by effectively eliminating many unproductive “middlemen”. It will also greatly facilitate the establishment of the direct investment scheme.

### ***Strengthening Governance***

DIPAM maintains an on going analysis of **diamond export data** to explore any anomalies in diamond export valuation and to track data from DACDF distributions. Key findings include:

- Poor management practices, resulting in under payment of the fourth tranche of the DACDF have been brought to the attention of the Minister of Mineral Resources. A full audit of funds has been completed, and improved management of the fund is being established.
- DIPAM has promoted reform of the DACDF distribution mechanism. Insufficient data on use of the funds at local level allow the opportunity for misuse. DIPAM has gained Government support for a review, and all disbursements are currently stopped. Proposals for reform submitted by DIPAM are under review by Government. Approval is anticipated at the next High Level Steering Committee
- DIPAM staff submitted a report to USG local representatives suggesting that under valuation of exports continues to reduce Government revenue. Concerns aired by both USG and DIPAM staffs have been heeded and a steady rise in export valuation figures is evident. (See Appendix A)
- DIPAM submitted projections for 2004 Diamond Industry revenue streams to Ministry of Finance through National Revenue Authority. This projection highlighted areas of revenue not calculated in government budget projections.
- DIPAM has been engaged in ongoing dialogue with respect to environmental management. We have worked with a local NGO and stakeholders to reach agreement to recover the highly controversial Kaismbo site. We have also worked with government in putting out to bid a tender to complete that work.

### ***Interaction with the Peace Diamond Alliance***

- ◆ DIPAM continues a constant support function from its Freetown base to the Peace Diamond Alliance office in Koidu and the intended extension to Tongo Fields. PDA Executive Committee and Member contributions on how local communities and Chiefdom authorities should participate, with government, with monitoring mining and marketing activities in their areas, has strengthened the role of DIPAM in the National forum.

### ***Support to Kimberley Process***

MSI's Technical Director attended a meeting in Ottawa, Canada, hosted by the Liu International Center at the University of British Columbia. The current Chair of the Kimberley process, the Canadian government, funded the event. The purpose of the meeting was to take stock in the Kimberley process. MSI used the event to increase the awareness of international players of the important models being developed in Sierra Leone and marshal support for the program. As a result a partnership may well be established with the University of British Columbia.

### ***Maintaining USG Awareness***

MSI's technical director attended a meeting hosted by the USG intelligence community on the diamond trade and potential for diamonds being used to support warfare and money laundering. Participants were very keen to learn of the Sierra Leone experience and the groundbreaking work of the USG there.

## **UNEXPECTED CHALLENGES ENCOUNTERED DURING THE PERIOD AND STEPS TAKEN**

### ***DACDF Coalition***

Despite the MSI funded **Institutional Strengthening Workshop for the DACDF Coalition** in August, and the renaming of the Coalition into the National Advocacy Coalition on Extractives (NACE), to date activities have been dormant. Further support to NACE has been withheld. As a way forward, MSI suggested to Talking Drums Studios that a collaborative evaluation of the experience of the DACDF Coalition/NACE might help us learn what went well and what needs attention. That could be a prelude to continued work with NACE. However, no response was received from NACE. It seems that NACE is not functioning at a sufficiently high level to warrant further funding. To address this issue MSI will work directly with the GOSL and focus on DACDF macro financing issues and micro experience in Kono District and Tongo Fields.

### ***High Level Steering Committee***

With the appointment of DIPAM as secretariat to the High Level Steering Committee, meetings have been restructured and a technical support team created. These changes have strengthened the effectiveness of the committee. However such work has proved extremely time consuming and the appointment of a local policy coordinator is now envisaged to coordinate activities of the HLSC and maintain continuity between MSI activities and the National Forum, and maintain local oversight of the DIPAM project.

## **OTHER MATTERS**

### ***Logistics***

Repairs to the project vehicle, damaged in September, were finally completed at the beginning of April.

## **LESSONS LEARNED**

Exposure to the US Intelligence Community and to Kimberley Process participants indicated that we are blazing important trails for the international community with respect to alluvial diamond management. The Sierra Leone program can leverage a growing interest in "development diamonds" by demonstrating what can work in Sierra Leone.

We also began to explore the feasibility of obtaining direct investment for the mining cooperatives, to complement the loan program. There seems to be a very real possibility of making this happen. We had not anticipated this earlier.

## **EXPECTED ACTIVITIES IN UPCOMING PERIOD**

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The next period will be a busy one. We will continue our policy dialogue with government and our institutional strengthening assistance to the MMR. We will also continue to support the High Level Steering Committee, hopefully hiring a new staff person to support that work. In addition we will finalize the design of a two-pronged financing program for cooperatives while we work to strengthen those cooperatives. Finally, we will strengthen important NGOs in Kono and prepare for the upcoming PDA general meeting in September. Activities described in greater detail, below:

1. MSI has already designed with the GOSL a database to assist them in managing the diamond resource. However, the government has to date not implemented the new system. To help them appreciate how useful the data can be, MSI will help the MMR populate and utilize the database, using information from Kono District.
2. Institutional strengthening assistance will be provided to ADAGMAK (Alluvial Diamond and Gold Miners Association of Kono) and MOCKY (Movement of Concerned Kono Youth), per institutional assessment plan developed in 2003. (DfID had originally offered to fund this TA, but later declined.)
3. Institutional Assessment of Kuendondoya Women's Association (KWA). Technical assistance to implement the improvement plan emerging from the assessment process will begin during the upcoming period.
4. Institutional Assessment of the Kono Peace Diamond Alliance Executive Committee will be conducted. Technical assistance to implement the improvement plan will begin during the upcoming period.
5. Institutional Assessment of the Tongo Fields Peace Diamond Alliance Executive Committee will be conducted. Technical assistance to implement the improvement plan will begin during the upcoming period.
6. We will fine-tune the design of the credit scheme for mining cooperatives.
7. We will design a program for direct investment (foreign and international) in the mining cooperatives and will recruit investors.
8. Comprehensive training programs will be designed, tested, and implemented for the mining cooperatives that are candidates to participate in the credit and direct financing schemes.
9. In-depth analysis of the export experience of the GGDO, down to the level of individual parcels, will be conducted in cooperation with the UN. We expect to have concrete recommendations to

the High Level Steering Committee for how to improve the quality of diamond valuation for export tax purposes.

10. The Kono PDA will continue to serve as an important venue for resolving the current Koidu Holding dispute.
11. The PDA will work towards establishing the Tongo Fields PDA Executive Committee as a forum for similar dialogues with respect to pending kimberlite activities there.
12. We will begin an extensive analytic phase of the program. This will include completing a Sustainability Livelihoods Survey, and mapping out the linkages of diamond activity to the rest of the society and economy in Kono.
13. During this period MSI will conduct an internal audit of its administrative and financial systems and will reinforce training of Sierra Leone staff responsible for administration and financial management.
14. We hope to conduct a participatory evaluation of the diamond program to date, in light of the upcoming IDM program to improve our implementation program.
15. DIPAM staff will also support the hosting of the next PDA meeting, to be held 15-16 September 2004, in Koidu.