

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

CA # 636-A-00-03-00003

First Semi-Annual Report (through 30 April 2003)

## **Summary:**

USAID and MSI have made rapid progress on implementing this ambitious Cooperative Agreement. Support of top Embassy and USAID officials has been an essential ingredient in demonstrating USG commitment to the policy platform pursued in the program.

MSI was able to establish its office in Freetown, participate in USAID's PMP planning and produce program monitoring baseline data, establish a Peace Diamond Alliance, hold two meetings for international stakeholders in Koidu, disburse its grant funds, hold two major national policy workshops in Freetown in partnership with DfID, integrate diamonds into MSI's other training programs, conduct two major policy research projects, brief key stakeholders in three countries, provide the Ministry of Mineral Resources with desperately needed equipment, and build consensus for reform at both the Chiefdom and National levels. As testament to the high regard of the program, the US Assistant Secretary of State for Africa, Walter Kansteiner, voiced his support for the allocation of \$500,000 of ESF monies to support credit facilities for miners and publicly singled out USAID's diamond program (at an international meeting on the Kimberly Process) for the Mission's creativity and drive.

It has been a very intense period; we now need to focus on consolidating our gains. PDA members – including DeBeers, Rapaport Group, DfID, Global Witness, the Diamond Area Community Development Fund Coalition, local Paramount Chiefs, the GOSL, and local community-based organizations – are enthusiastic about the program and have pledged very significant specific resources to support the establishment of the PDA. Now we will need to develop the policy and institutional infrastructure to help realize the potential of those efforts. We need to continue to work closely with DfID as it moves to implement its follow-on project. DIPAM will focus on linking policy dialogue in Freetown with what we are learning and experimenting with in Kono. We will continue to work with civil society in building its effectiveness working with government and communities in developing new paradigms for extractive resource management in Sierra Leone.

Key areas of policy focus will be: increasing competition in the mining credit and diamond marketing sectors, increasing transparency in the DACDF distributions, linking lessons learned in Kono with other diamond areas in Sierra Leone, streamlining and improving diamond export regimes, developing effective pilot chain of custody systems for diamond mining, improving linkages with the Kimberly process, and corruption. We hope to support the PDA in establishing a framework to provide credit to miners and ensuring the export of pilot certified rough diamonds during the upcoming period.

Our main challenges to date have been political and bureaucratic. Politically, while we have been able to gain support from the GOSL at various levels, diamond cartel participants are likely to object to the reforms we propose. It is a challenge to integrate their interests into the program, but we must continue to work on that issue. Bureaucratically, awarding of the PDA cooperative agreement was delayed significantly. We addressed this challenge by utilizing the DIPAM CA both for its regular policy thrust and to get the Alliance established while waiting for the contracting machinery to complete the required documentation. This was very taxing, but we were able to make significant progress on both fronts nevertheless. Enthusiasm for work in the diamond sector is very high among USAID and embassy staff stationed in Sierra Leone as well as in the State Department. That enthusiasm needs to be broadened within USAID. On the other hand, the CA is only six-months old and we are optimistic that emerging results will speak for themselves over time.

### **Accomplishments during the period**

MSI was able to get a very fast start on implementing DIPAM and has managed to maintain a productive pace.

- ◆ In less than a week after notification of the award, MSI's Technical Manager was in Sierra Leone attending **USAID's Program Monitoring Workshop**. *Results:*
  - Program monitoring indicators established
  - Improved coordination with other USAID programs
  - Base line data established
  
- ◆ In less than three weeks MSI had hired a **Field Manager and Diamond Business Advisor** and secured office space *Results:*
  - Field base from which to work on policy issues established
  
- ◆ In less than three weeks terms were agreed upon for **grants to the Diamond Area Community Development Fund (DACDF)** to enable it to continue its important advocacy campaign. *Results:*
  - Two sets of activities were to be executed; one led by Catholic Relief Services (CRS) and the other by Talking Drums Studios Sierra Leone (TDSSL). NGOs were immediately active in advocacy and in improving the capacity of communities to hold chiefs accountable;
  - In January, the DACDF completed an important report on progress in implementing the DACDF, pointing to both progress and shortfalls. Report to be available at [www.peacediamonds.org](http://www.peacediamonds.org);
  - UNDP has now agreed to provide matching funds in kind to the DACDF to enable larger scale community projects to be implemented.
  
- ◆ Within six weeks (December 2002) we arranged for the **Inaugural Meeting of the Peace Diamond Alliance in Koidu**, a very remote area of Sierra Leone. Report to be available at [www.peacediamonds.org](http://www.peacediamonds.org). *Results:*
  - A paradigm shift in diamond management regime, recognizing the rights and responsibilities of community participation

- **Very significant resource commitments** from a wide range of corporate, NGO, government, and community players
    - Rapaport has offered to purchase and market fair trade diamonds (estimated to be the \$millions eventually)
    - Branch Energy is investing \$12 million, consistent with Code of Conduct
    - DeBeers will provide training, T.A., and linkages (\$thousands)
    - DfID is providing some infrastructure, funding, policy muscle, and technical assistance (over \$250,000 to date, projected for additional \$2 million)
    - UNAMSIL has provided security, intelligence, logistical support and surveillance (\$ millions)
  - Institutional foundation established for addressing sustainably issues related to diamond mismanagement
  - An important model established for USAID regarding public private partnerships in a post-conflict context
- ◆ A second **Peace Diamond Alliance (PDA) Planning Meeting** was hosted in Koidu to complete the planning process in February 2003. Report to be available at [www.peacediamonds.org](http://www.peacediamonds.org). *Results:*
    - Draft work plan for the PDA
    - Draft Code of Conduct for the PDA
    - Governance structure established for PDA, including formation of an Executive Committee
    - Consolidation of local level political support for PDA
    - Decision to include Executive Branch by inviting H.E. President Tejah Kabbah to officially endorse the PDA at its next meeting
  - ◆ **Motorcycles and radios were procured** for use by the Ministry of Mineral Resources (MMR) to enhance its capacity to manage the diamond resource. Their utilization has also been monitored. *Results:*
    - MMR field staff better able to monitor and report on mining activities in Kono District<sup>1</sup>
    - Holding MMR accountable for equipment use
  - ◆ Important fundamental economic research was completed relating to **financial constraints in the diamond sector**. Report to be available at [www.peacediamonds.org](http://www.peacediamonds.org). *Results:*
    - Awareness within the project, USG, and UKG, of the magnitude of the problems associated with mining and of the potential to address them
    - Improved understanding of the complex challenges posed to the program by the existing diamond cartel system
    - Recommendations for how to address those constraints

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<sup>1</sup> Radios are not yet operational as the Field Manager is working with the MMR to understand how they can be used most effectively, based on prior experience.

- ◆ Important fundamental research was completed related to **credit constraints** faced by alluvial miners. Report to be available at [www.peacediamonds.org](http://www.peacediamonds.org). *Results:*
  - Identification of credit as key constraint and commitment to address issue
  - Recommendations on addressing issue via formal credit system with existing banks
  - Endorsement of concept by commitment of additional \$500,000 in ESF by State Department to address credit constraints
  
- ◆ Information from those analyses has been spread to targeted audiences through briefings to the USAID/Sierra Leone, USAID/Guinea, US Embassy in Sierra Leone, and the UK High Commission in Sierra Leone; the US State Department; USAID/Africa Bureau; MSI corporate staff, and the coalition of US NGOs working on the Blood Diamond issue. *Result:*
  - Greater understanding of the issues related to peace diamonds in Sierra Leone and greater support for the program by USG and UKG
  
- ◆ As promised at USAID's program planning retreat in November 2002, MSI's Nation Building program developed a diamond management module to be used in its community building efforts in diamondiferous areas. *Results:*
  - Greater Synergy among USAID programs
  - Improved understanding among community leaders of how to address local-level diamond management issues
  
- ◆ USAID/MSI strengthened its strategic alliance with the UK/DfID diamond program by co-financing a crucial financial analysis of the diamond sector, co-hosting, and facilitating, a national forum on diamond policy and a participatory workshop on implementation constraints to diamond policy reform attended by stakeholders from around the world, and constant collaboration on diamond policy issues. *Results:*
  - Synergy is achieved when both countries work together and reinforce each others' activities;
  - A consistent message is sent to the GOSL on donor priorities
  - Private investors are more willing to engage in the Peace Diamond Alliance
  
- ◆ Strengthening political ties with Paramount Chiefs in the Kono District and with the Ministry of Mineral Resources. *Result:*
  - Paramount chiefs have endorsed USAID's diamond sector program
  - The MMR is increasingly supportive of the USAID program
  
- ◆ Establishing links with the Executive Branch. *Result:*
  - The President's ministry has become an active participant in PDA deliberations;
  - H.E. President Tejah Kabbah is expected to formally endorse the PDA at the next PDA meeting, indicating the commitment to change at the highest level of government

- ◆ Endorsement of the program by the State Department as an important component of maintaining the peace in Sierra Leone:
  - The US Ambassador has expressed his support of the program through attendance at program functions;
  - Walter Kansteiner, Assistant Secretary of State for Africa, has expressed his enthusiastic support for the program at a recent meeting at CSIS to discuss the Kimberley process and through his recommended allocation of \$500,000 in ESF for miners' credit.

### **Unexpected challenges encountered during the period and steps taken to address them**

#### *USAID/Conakry Program Commitment*

The diamond sector program began as a component of the Office of Transition Initiatives and has continued through support from ESF (for DIPAM), the Africa Bureau's Public Private Partnership Program (for the PDA activity), the D&G Center's SPIR project (for transitional funds while awaiting delayed approval of the CAs), co-financing through DfID, private sector investment in the PDA, and now additional ESF funds for the loan program. However, despite this widespread endorsement of the program in other offices of USAID, skepticism in USAID/Conakry remains as to the feasibility of the program and its appropriateness to the Mission's strategy. MSI has briefed both Mission and Africa Bureau staff on the significant level of progress in the few months since project start-up. We will continue to communicate project progress, highlight partner buy-in, and encourage a Mission sense of "ownership" in the program.

#### *MMR Equipment*

A monitoring visit to the MMR revealed the staff were not yet using vehicle logs appropriately and had not yet marked the motorcycles correctly. Agreement was reached to rectify this issue. A follow-up visit will be made in the next reporting period to verify that the changes have been made. USAID staff noted that MMR staff did not appear to be fully utilizing radio equipment provided under an earlier USAID instrument. MSI's Field Manager is following up on this issue.

#### *Work Plan Adjustments*

- ◆ The video production originally scheduled for early 2003 was delayed, and removed from the budget. We are hoping to secure external funding for a documentary on progress under the Alliance. Funds were reallocated for program management;
- ◆ The Corruption study was delayed until late 2003. We needed to direct our energies to establishing the Peace Diamond Alliance and creating the political support needed for such a study.

### **Organizational matters**

Our office is fully established in Freetown, though we continue to experience logistical challenges common to doing business in Sierra Leone. We have had difficulty procuring a vehicle for the project due to MSI's status as a for-profit business implementing a

USAID Cooperative Agreement. Apparently, MSI is the first such case for USAID/Sierra Leone since the war, and it has taken some time to reach agreement among USAID and the GOSL as to the appropriate registration status and criteria for importing project goods duty free. These issues now appear to be resolved and we will soon import the project vehicle. The project rented vehicles in the meantime. Our Field Manager will depart post in August of 2003, to return with her family to England. We are taking steps to address this transition in project management.

## **Gender Considerations**

Mining, diamond marketing, and government oversight of the sector is dominated by men. However, women are essential decision-makers in a host of issues related to peace so the project needs to incorporate their interests. To date we have incorporated gender balance in the governance structure of the PDA and have recruited women's groups into the PDA. The issue of highest relevance to women in diamond mining to date as been child mining. Accordingly, this has been adopted as a high priority for the next period.

## **Lessons Learned**

Based on the PDA meetings held, the public policy forums supported, and the analytic pieces completed during the period, we were very much encouraged as to the political and economic feasibility of our strategy. In particular the expression of support by traditional leaders, coupled with increased interest by the Executive Branch bode well for the future. The challenges remain considerable, but the objectives are achievable.

We believe the Kono Peace Diamond Alliance presents a number of relevant lessons for the Agency's Global Development Alliance. Specifically:

*With respect to managing Alliances in general:*

- ◆ During organizational phase, it is important to project the Alliance as "winner", and to invite members strategically
- ◆ Non-financial contributions by Members are key
- ◆ Alliances are management intensive
- ◆ USAID's linkage with State can be key in establishing alliances
- ◆ Balancing State/USAID interests and bureaucratic requirements can be a challenge in managing Alliances

*With respect to unexpected lessons for alliances:*

- ◆ Alliances can help address local elites and other economic/political structures detrimental to development
- ◆ Alliances can help cope with corruption
- ◆ Alliances can be useful tools for pursuing USG political interests
- ◆ Locally empowered alliances can serve as useful autonomous proxy for USAID interests

*With respect to Alliances in a post-conflict setting:*

- ◆ The Alliance structure is surprisingly well suited for stitching together a fragmented post-conflict society
- ◆ Alliances can provide a vehicle for empowering interest groups to influence government non-confrontationally
- ◆ Alliances can provide space for enabling private sector forces to re-shape society and to empower marginalized elements
- ◆ In post-conflict situations, significant spending may be needed to address social infrastructure constraints necessary to empower local forces marginalized by war and private sector requiring a conducive environment

*With respect to specific diamond issues:*

- ◆ It is a challenge to engage USAID in working with a non-traditional development activity, such as with the extractive sector generally, and with diamonds in particular
- ◆ Diamonds are such a stable high-value commodity that proper management and marketing can have large development impact
- ◆ Ironically, an outstanding suit against the industry leader (DeBeers) encourages industry participation
- ◆ NGO and consumer awareness of commodity related social problems (blood diamonds) makes the industry more interested in participating

### **Expected activities in upcoming period**

During the next period we will continue to engage government in policy dialogue, support the DACDF Coalition in monitoring DACDF activities, coordinate closely with DfID, and integrate closely with PDA activities on the ground. Specific activities in the upcoming period include:

- ◆ Grant to DACDF Coalition for institutional strengthening
- ◆ Institutional assessment of the Alluvial Diamond and Gold Miners' Association of Kono District (ADAGMAK)
- ◆ Working closely through the Coalition with UNDP to ensure matching funds to the DACDF are available for communities
- ◆ Institutional Assessment of the Movement of Concerned Kono Youth (MOCKY)
- ◆ Targeted assistance to ADAGMAK and MOCKY as a result of the assessments;
- ◆ Development of a detailed approach to providing credit to miners through commercial lending;
- ◆ Efforts to raise funds to support efforts to mitigate the negative effects of child mining;
- ◆ Further efforts to secure corporate contributions from Caterpillar in the form of earth moving equipment as part of a loan scheme;
- ◆ Development of an on-the-ground chain of custody scheme to enable the PDA to “certify” diamonds, based on systems previously designed by MSI and the MMR;
- ◆ Agreement on a formal buying mechanism for certified diamonds;
- ◆ Formal export of a small amount of “certified” diamonds through the PDA;
- ◆ Execution of a study of the structural issues related to corruption and tactics for addressing them; and
- ◆ Continued support to the PDA Support Project now installed in Koidu.